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SEPTEMBER 1979

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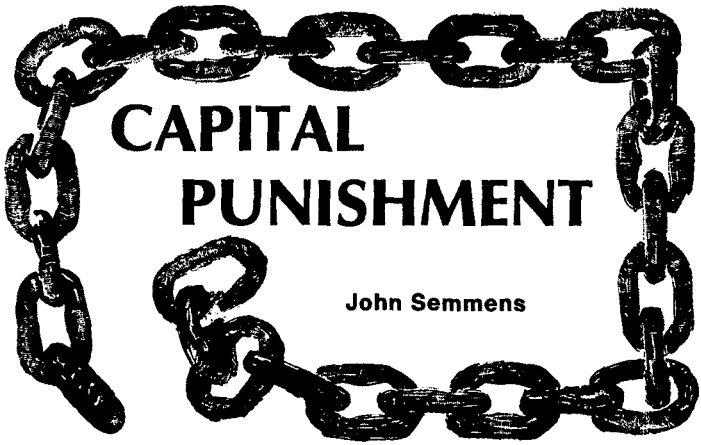

A widely forecast recession did not occur in 1978. The Carter Administration stood practically alone in its insistence that there would be no recession. So, when the year ended with healthy gains in reported corporate profits there was much rejoicing, right? Well, not quite. It seems that while prosperity is a circumstance to be much sought after, profits—one of the symptoms of prosperity—are a "catastrophe" that the body politic cannot abide.

There is no rejoicing. Instead, the occasion serves to stimulate demands for mandatory profit controls from union potentates, while the President seems intent on providing an opportunity for in-house economists to grope for new meaningless phrases to describe and defend government economic policy.

The most amazing aspect of the whole spectacle is that so much inspiration could be generated by *an event which never occurred.* There was no increase in corporate profits in 1978. When adjustments are made to account for the effects of inflation, net profits actually declined by 4% rather than increasing by 16%, as the reported figures seem to imply.[1]

This discrepancy between reported and real profits is one of the less ambiguous government accomplishments of recent years. On the one hand, a manipulative monetary policy has facilitated a phantom doubling of nominal profits

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over the last decade. On the other hand, a tax code which makes no provision for the declining value of each dollar, allows the government to confiscate ever larger portions of the nation's wealth. It is the old story of crime and punishment. Only in this case, while it is an agency of the federal government which robs the holders of money of their purchasing power, the punishment is dished out to the productive sector of the society.

Such a policy, though it may be temporarily expedient in the aggrandizement of government power, has significant negative effects on the general welfare. The progressively worsening bouts of stagflation, with each episode more unnerving than the last, are a manifestation of the future that such a policy portends.

It is possible, one must suppose, that the originators and executors of this counterproductive treatment of business profits are unaware of the damage wrought or, at least, that they discount its seriousness. However, a supposition of this sort must border on the absurd, given both the extensive discussion of the issue in academic and business circles, as well as recognition of the need to warn investors of the distortions to a firm's reported financial condition evinced by the Securities and Exchange Commission.

In May of 1976 the S.E.C. issued ASR 190, which required publicly held corporations to prepare additional financial statements estimating the impact of inflation on reported financial results. Thus, the business firm's access to equity financing is being stymied from all sides. The Internal Revenue Service, ignoring the effects of inflation in creating imaginary profits, siphons off retained earnings. Meanwhile, the S.E.C., citing the effects of inflation, is warning off would-be investors from providing external sources of equity finance.

Since the counterproductive policy persists, despite its absurdity, we must demonstrate more convincingly its effects and why it is imperative that it be changed.

Suppressed Evidence

The most convincing evidence we would cite to illustrate the seriousness of the problem is the lack of progress in the stock market. The Dow Jones Industrial Average, the most famous of stock price indices, has failed to advance much above 1000 in the past ten years. In fact, the DJIA now stands lower than it did ten years ago. This is in spite of a near "doubling" of earnings over the span.

Customer's men and stock market touts are not the only ones to be mystified by the "sick" market. Looked at from the standpoint of the "value" of the assets owned by the

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firm, it would appear that shares are undervalued. The ratio of market price to book value is about half of what it was a decade ago. And since the nominal return to equity is approximately the same as it was then (about 12% on the Dow Jones Industrials), the shares must be worth twice as much, right? Wrong, the shares' price-to-earnings ratios are halved and the number of companies whose shares sell for amounts less than tangible book value is substantial.

An obvious case of market irrationality, it would seem. Unless, that is, one is willing to consider an alternative hypothesis. What if it is not the market that is out of step with reported earnings, but rather, the reported earnings which are out of step with an "efficient" market? There are sufficient grounds for such a hypothesis in economic theory. At the root of the capitalistic theory of the economy is the presumption that given a reasonable period of time, the market is the most effective and efficient allocator of resources. Now, if a cost level adjustment to the reported financial statements of a sample of firms were made for the years 1967 through 1977 and the resulting figures appeared to more closely conform to the market value of the shares, then would it not be logical to conclude that the sickness is in profits and not the market?

For the purpose of evaluating the above hypothesis, the earnings and market values of the 30 companies which now compose the DJIA were compiled for the ten-year period. Use of these firms is defended on the grounds that combined they account for nearly 15% of the total earning power of all U.S. non-financial corporations. This is a significant slice of the total economic pie in this country.

Using an unweighted average of common stock earnings divided by average market prices of DJIA shares, we find an apparent rise in rate of return from 6.4% to 10.0% between 1967 and 1977. The return on common stock, by this measure, has increased substantially. However, if we adjust earnings to reflect the effects of inflation on the firms' depreciation reserves for long-term assets, an entirely different picture is revealed. In this case we find virtually no change in the return on common stock. In 1967 the rate was 5.2%, while in 1977 the rate was 5.4%.

Tortuous Taxation

"As a consequence of the U.S. tax system, inflation unambiguously reduces incentives to undertake new investment projects, and therefore, business investment spending declines."[2] It would appear that the chickens of Keynesian monetary manipulation have come home to

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roost. American investors can no longer be duped into accepting nominal rates of return which conceal lower real rates of return.

Despite demagogic rhetoric attacking "obscene profits" and "tax loopholes," an examination of real earnings portrays a much different story. Even though inflation effectively reduces income, the tax code makes no allowances for the reduction in real income. As a result, the after tax return to equity takes a beating. In the last decade real after tax return to equity dropped by over 50%, i.e., from over 10% to under 5%. Meanwhile, the effective tax rate on real income has soared to over 70%. Far from escaping "fair" taxes and piling up "windfall" profits, American corporations are being progressively bled dry.

This rising effective tax rate has been cited by numerous studies of the tax consequences of inflation. The important consequence, of course, has been the powerful disincentive for capital investment that is created. The real reduction in return that occurs when cash flows can recover only the original historical cost of fixed assets leads, quite naturally, to a more negative assessment of investment pay-offs, and therefore, to less investment.

Ostensibly, the accelerated depreciation schedules that the IRS allows are supposed to offset the tax effects of inflation. While this may have been an adequate resolution of the problem 20 years ago when inflation rates were more modest, it does not provide much help today. An article in the *Federal Reserve Bank of St. Louis Review* found that the presence of a negative inflation effect was independent of depreciation methods used.[3] A similar conclusion was reached by Richard Kopcke.[4] Whether one used straight line or sum-of-the-years digits depreciation under high inflation rates, the difference was minor, i.e., with an equipment life of 10 years and an inflation rate of 9% per annum, the difference in present value of the streams of cash flow under the two depreciation methods was only 1%.

Neither is the investment tax credit adequate to overcome the penalty resulting from taxation based on historical cost recovery depreciation allowances. A study by Parker and Zieha showed that under inflation rates of recent years, even an investment tax credit of 10% was not sufficient to offset the negative incentives of the basic tax code.[5]

The Real Crime

A look at the earnings performance of the 30 DJIA companies will serve to indicate the magnitude of the disincentives produced by the taxation and inflation combination. After adjustment for inflation, *every company* has experienced a decline

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in return on equity between 1967 and 1977. For the entire period, profits were overstated by 29 to 55%, (using weighted and unweighted averages respectively). A year to year comparison reveals the growing distortion in reported figures. In 1967, nominal earnings were overstated by only 8 to 16%. However, by 1977 nominal earnings were overstated by 66 to 116%.

These phantom earnings are, of course, taxed as if they were real. In 1977, out of a pre-tax net income of $39 billion, $28 billion went to cover tax liability, $10 billion was paid out in dividends, and only $1 billion was retained to facilitate company growth. The ratio of taxes to real retained earnings in 1977 was 28 to 1. For each dollar these firms retained for future expansion, $28 had to be set aside for government consumption. This compares to a calculated ratio of $3 in taxes for every $1 in retained earnings in 1967.

Excessive taxation is the real catastrophe, not corporate profits that are "way too high." The retained earnings of the 30 companies used in this study amounted to less than .3% of the total assets of these firms. Since it requires at least $80,000 in real capital (adjusted for the effects of inflation on replacement costs) to support each job, the total employment-generating capacity of these firms from internal sources was 13,000. If this phenomenon can be said to be typical, then the total number of jobs that could be generated by the retained earnings of all U.S. nonfinancial corporations in 1977 was fewer than 90,000. This equates to an employment growth rate of one-tenth of one per cent.

These figures may shed some much needed light upon the great mystery of modern economic orthodoxy: the simultaneous occurrences of high inflation and unemployment. Keynesian monetary manipulation assumes that more inflation means less unemployment, and vice versa. This theory relies heavily on the presumption that nongovernment investors are dopes. This, of course, is the fatal flaw in the system. Independent economic actors will seek to protect themselves against the losses resulting from investments penalized by inflation.

Job-Creating Programs Consume Available Capital

The progressively worsening results of monetary manipulation have been compounded by the implementation of various public job creating programs. If $80,000 in capital can provide only one job in the private sector, then $80,000 ought to be able to make work for at least five persons if it is simply spent by the government on

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salaries. Such a simplistic solution ignores the lesson told in the golden goose fairy tale. Private capital normally earns a return in excess of its cost. Over an extended period, the $80,000 in capital would not only regenerate itself, but provide an increment for the expansion of the enterprise and employment. In contrast, the government program which consumes the $80,000 to create five jobs is exhausted within one year. Repeated resort to consumption-based job creation must inevitably erode the long-term employment opportunities of the economy.

There can be little question that inflation and taxation lead to a lower rate of capital formation. Output is reduced, but the question is: by how much? One researcher called the total social welfare loss resulting from the current tax treatment of earnings on capital "astounding."[6] His estimate of the yearly welfare loss was $50 billion. The chief victims of this loss are working people. The punishment of capital and the reduction of returns on capital also reduce the returns on labor. Consequently, upward mobility and an improving standard of living are hampered by the poor returns on capital investment. These consequences are no less real merely because they are unintended. Policy makers would do well to remember this point the next time they seek to punish corporate "profiteers."

The persistent reliance on inflationary policies has created what may be the most difficult problem to reverse—inflationary psychology. The penalties inflicted on thrift and productive investment have nurtured an "eat, drink and be merry for tomorrow we die" philosophy. It was Keynes himself who said "in the long run we're all dead." True to his word, Keynes is dead, leaving the rest of us to reap the harvest sown by policies based upon his theories.

The "long run" of 1935 is here today, with all of the distortions and disincentives that Keynes' early critics predicted. More and more, we see purchases made in order to avoid higher prices later. This rush to acquire hard goods increases the proportion of malinvestment. The earlier one commits to a specific investment, the less certain one can be of the future. This in itself would tend to lower return on fixed assets, even were inflation to be ended.

Further, manpower and resources are diverted to nonproductive pursuits. The deterioration of monetary assets impels an increase in money velocity and paper financial transactions, as firms and individuals seek to minimize cash balances. This creates a demand for financial services in great excess to what would be necessary under a more stable monetary unit. These trans-

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actions consume resources that might serve more productive ends. In addition, managerial talent must be directed, at least in part, toward coping with the problems of inflation and its tax consequences. This diverts talent from dealing with matters that could be of more substantive benefit to our material well-being.

Possibly the most damaging effect of the inflation-taxation policy is the destruction of truth in both financial reporting and policy discourse. The disintegration of the monetary unit goes a long way toward invalidating corporate annual reports. Even worse, this distortion pollutes the price system and upsets the balancing and allocating functions performed by this system.

But the lowest blow of all is the contribution this policy makes to the deterioration of public policy debate. The whole "advantage" of a deliberate provocation of inflation is the element of deceit based upon the "money illusion." The money illusion concept is an illustration of Keynes' contempt for the intended victims of government manipulation of the money supply. People are not astute enough, Keynes reasoned, to perceive the erosion of purchasing power in the monetary unit. As long as the nominal dollar amounts of their incomes remained unchanged or higher, they would not react to protect themselves from the effects of inflation of the money supply.

Disciples of this "money illusion" theory attempt to trick the economic units in society into pursuing actions they would not ordinarily take. This makes dissemblers of our public policy spokesmen. How can a political system based upon democratic decision-making operate when the citizens must be fed lies as a matter of course in the implementation of national economic policy? One critic even goes so far as to claim that the whole process is intentionally dishonest—not for the people's own good, as apologists might argue—but for the express intent of increasing the government's tax take.[7]

The Ultimate Punishment

We have examined the effects of inflation and taxation on corporate profits. There can be little doubt as to the negative consequences. Corporate profits are, as a result of inflation, overstated. Since the tax code makes no allowance for inflation, profits are then overtaxed. Real earnings are substantially reduced.

The penalties against earnings from capital investment have, naturally, discouraged such investment. This portends a rather dire future for the United States economy. Discouragement of investment shrinks the capital stock. If the effect on the 30 DJIA companies we have examined is representative, then the

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economic growth capacity of private business in the United States is less than ⅓ of the rate of population growth. If the long-term standard of living is to rise, or at least avoid a decline, more capital must be created. This is precisely what the government's policies on inflation and taxation are preventing.

Perhaps the greatest irony of the manipulative monetary policy has been the rising value of that "barbarous relic"—gold. At the same time that stock prices and the return on productive assets have declined in real terms, the price of gold has surged. The inflationary monetary policy spawned by Keynesian economic theory has done more to promote the resurgence of the "barbarous relic" than all hoarders and speculators could ever have hoped to achieve. Which only goes to show that in the long run, crime does not pay. ⊕

—FOOTNOTES—

[1]"Profits '78—Inflationary Razzle-Dazzle", *Citibank Monthly Economic Letter* (Apr., 1979), pp. 5-10.

[2]John Tatom and James Turley, "Inflation and Taxes: Disincentives for Capital Formation," *Federal Reserve Bank of St. Louis Review* (Jan., 1978), pp. 2-8.

[3]*Ibid.*

[4]Richard Kopcke, "The Decline in Corporate Profitability," *New England Economic Review* (May-June, 1978), pp. 36-56.

[5]James Parker and Eugene Zieha, "Inflation, Income Taxes and the Incentive for Capital Investment," *National Tax Journal* (Vol. XXIX, No. 2, 1976), pp. 179-189.

[6]Michael Boskin, "Taxation, Saving, and the Rate of Interest," *Journal of Political Economy*, (Apr., 1978), pp. 3-27.

[7]Harry Johnson, "A Note on the Dishonest Government and the Inflation Tax," *Journal of Monetary Economics* (July 1977), pp. 375-377.

IDEAS ON LIBERTY

Plunder by Fraud

THE WORLD is not sufficiently aware of the influence that *sophistry* exerts over it.

When the *rule of the stronger* was overthrown, *sophistry* transferred the empire to *the more subtle,* and it would be hard to say which of these two tyrants has been the more disastrous for mankind.

Men have an immoderate love of pleasure, influence, prestige, power—in a word, wealth.

And, at the same time, they are driven by a powerful impulse to obtain these things for themselves at the expense of others.

But these *others,* who constitute the public, are impelled no less powerfully to keep what they have acquired, provided that they *can* and that they *know how.*

Plunder, which plays such an important role in the affairs of the world, has but two instruments: *force* and *fraud,* and two impediments: *courage* and *knowledge.*

FREDERIC BASTIAT, *Economic Sophisms*

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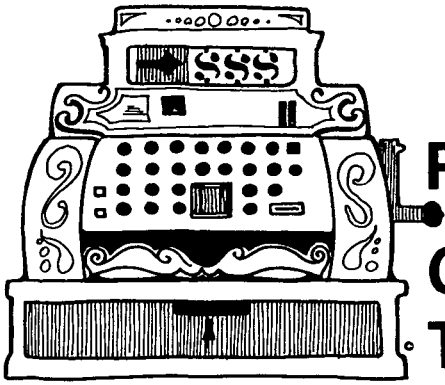
William E. Cage



PRICES: GUIDELINES THAT WORK

ONE of the stories handed down over the years tells how kings used to execute messengers who brought bad news. The nobility apparently thought—literally—that no news was good news. If only we don't know about a catastrophe, it isn't bad at all!

We can laugh at such an attitude today because we realize the importance of information, whether it is good or bad. The good news tells us things are going well and the bad news is a call to action. Whether the messenger carries information about an earthquake or a shaky financial structure, we respond by taking helpful and remedial actions. Bad news is no longer cause for beheading the courier but rather is an alarm that signals that something must be done.

There are those who still take the old view that bad news is somehow the fault of the messenger who carries that news. Their response to information about calamities is to shut down the news service. They would rather have the morning newspaper full of blank pages than have the assaults and accidents reported as they happened. Most of this crowd—the "hear-no-evil-and therefore-everything-is-fine" crowd —seem to hold public office.

That doesn't mean that the freedom of the press is in jeopardy—not yet, at least. Those who would eliminate bad news have a much bigger target in their sights. What they are aiming at is the biggest communications system in the world.

It may come as a surprise that this system is not a broadcasting company, the phone system, nor a publishing company. The world's biggest communications system does trillions of dollars of business each year but has no paid employ-

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ees. It doesn't use satellites or microwave towers, and it doesn't even have a corporate headquarters.

The Price Network

This communications system is the network of prices that keeps our economy going. Whenever people start buying more of an item, the price of that item starts going up—a signal to producers to produce more. If a particular skill is needed by businesses, the price of people with that skill (their wage) goes up. Those who have that skill are allocated to that part of the economy where they are of the most value, and more people are attracted into that profession or trade as a result of the higher wages. If OPEC simply decides to shut off all oil to our country, we will quickly experience a massive shift to other energy sources—not because the Department of Energy so decrees but rather because oil prices will rise to the point that other energy sources become more attractive.

That message system—the price network—works efficiently night and day. When it makes a mistake, it is quickly corrected. It sends the labor, the natural resources and the finished goods to the places where they are most highly valued. It tells a businessman when he has made a mistake in interpreting consumers' wants and it rewards those who develop new or better ways of solving problems. Last year, in the U.S. alone, our price network allocated over $2 trillion of goods, services, materials and talents—and it all went smoothly.

> The biggest communications system in the world . . . is the network of prices that keeps our economy going.

The Burden of Inflation

Well, it *almost* went smoothly. The price network has had an extra burden to bear for the past decade and especially for the past few years. The extra burden is *inflation*. To be sure, the price system has done its job. It has reported to us that the dollar is losing its value, both at home and abroad. At the same time that the price network was delivering this message it was still having to simultaneously adjust for changes in people's tastes, technological advances and new products. This would be similar to a juggler having to keep all of the balls in the air while riding a roller coaster!

The price network kept the messages coming despite having to adjust for the extra messages about the value of the dollar. Normally, such faithful service in the face of overwhelming demands would call for

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recognition of and reward for meritorious duty. But the old practice of kings is re-instituted instead. Washington declared that we should execute the messenger who dared report bad news. Their sensitivity is understandable. After all, the bad news was that there were too many dollars in circulation—and that was the fault of the Federal Reserve System, a quasi-government agency.

The execution of the messenger is to be voluntary, at least in the beginning. The government asked all of those in the economy to voluntarily ignore the price network. Even if customers have more dollars to spend, producers are not supposed to raise prices more than they have during the past couple of years (actually, one-half per cent less). Employees are not supposed to be given wage increases in excess of 7 per cent, even if an employer loses his entire work force to a competitor. If costs are restrained, and prices are restrained—so goes the Washington view—inflation will no longer be a problem. Let the messenger drink a cup of hemlock and there will no longer be any bad news!

The bad news, of course, will still be there. The price network has simply been delivering the message that there is an excess supply of dollars and that the value of the dollar is therefore lower. Now, if those excess dollars are still out there, what will happen if everyone faithfully follows the wage and price voluntary guidelines?

In doing so, we are (voluntarily) executing our economic messenger—the price system. That price network would otherwise be telling us that people have lots of dollars and that they want to spend those dollars, driving prices up. If prices and wages are voluntarily restrained, the dollars are still in circulation and the demand for goods and services still exists. But, under the guidelines, that dollar demand cannot have an effect on wages and prices (in excess of the guidelines).

The producers in the economy must receive higher prices if they are to produce more. The only way that businesses can maintain their profit margins is to charge more as inefficiencies creep in with expanded production. But if they cannot—or will not—charge more, they cannot be expected to produce more.

Maladjustments

So, if everyone were to faithfully follow the guidelines, the demand for more goods would be unmatched by an increase in the supply of those goods. Those items in greatest demand would soon disappear from stores. Without the price network to broadcast up-to-the-minute economic news, shortages would begin to crop up.

But the consumers, thwarted in their desire for the products in

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greatest demand, will try something else. Second-hand goods, antiques, and all those things not under the guidelines will become popular as people seek to get out of dollars and into something of value! Even as they spend for such things, though, the dollars are still in circulation in our economy. They may have passed into the hands of used car dealers and antique store owners, but the dollars are still there.

At some point, if we cannot get the *additional* goods and services we want from our own economy, we are going to buy those products from another economy. To get foreign goods, though, we need to have foreign currency. As we try to purchase goods abroad, offering dollars to get francs, marks, yen and lira, the value of the dollar will start downward. We may have done away with our own economic messenger but the international price network will quickly send the same report: there are too many dollars and their value must fall.

The U.S. government could hardly stand by and let the international markets telegraph such information. For a while, our government will step in and supply the foreign currencies we need to buy foreign goods. But the government's supply of those currencies is limited, so the dollar support program could only have a limited life. Before its demise, we can expect direct trade restrictions to be imposed, preventing us from buying French wines, Japanese stereos and German cars.

When we put our price network out of commission—voluntarily—we implicitly agreed that we would resort to some other way to allocate the available goods and services. Whether we resort to government licenses to buy imported products or coupons to buy gasoline, or simply the arbitrary system of first-come, first-served, we will have to use a very inefficient means for dividing up the gross national product. Worse yet, we can expect fewer products to be available because our domestic companies have no incentive to produce more and we won't be able to buy as much from foreign companies.

Inflation Persists, Despite the Disguise

The inflation problem is still with us, even if everyone follows the wage and price guidelines. All that we have done is disguise it. If you want to buy gasoline, you will still have to pay more for it—except that now the payment will be partly in cash and partly in a willingness to get up at 3:00 A.M. to get in line at the service station. If you want that increase in salary you deserve, you will either have to change companies or settle for non-monetary fringe benefits—a new office, more

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secretarial help, a fancier phone on your desk.

Total compliance with the voluntary guidelines does nothing to solve the problem of inflation. It simply drives the problem underground. The bad news is still there, and liquidating the messenger doesn't change the message.

Ignoring the price network makes life in a complex economy exceedingly more difficult. Because the demand for goods and services cannot be expressed entirely in dollars, everyone must learn how each store or industry operates. We have to find out when the meat counter receives its daily shipment; when the gas station will be open; whether we have any friends to whom we can turn to supply what we want. Employers must try to keep their employees without granting wage increases in excess of the guidelines and figure out how to get the materials needed for production without paying more than the guidelines allow. As the demand for products and labor will not be satisfied under the guidelines, that demand will seek its own level elsewhere. As the prices of the goods and services not under the guidelines begin to rise, we can expect governmental restrictions and controls to spread. Import controls, restrictions on investment abroad, credit controls and perhaps even an extension of the guidelines to used merchandise and individual wages and salaries are all conceivable.

Difficult as life in that type of economy would be, we could still muddle along. Most people probably don't realize just how difficult life would be, for it is widely reported that nearly two-thirds of our adult population supports the guideline approach to controlling inflation. If there were any reasonable chance that the guidelines would in fact reduce inflation, that support might be understandable. However, the only result that we can expect from even complete compliance with the guidelines is a new face for inflation. Instead of higher dollar prices, there will be higher non-dollar prices. Instead of higher wages and salaries, there will be more money spent for redecorated offices with oriental rugs. Instead of buying imported goods at market prices, we will have to buy licenses to get those foreign goods at below-market prices.

Destroying the Messenger

The voluntary wage and price guidelines will fail to control inflation because they do nothing to rid us of the cause of inflation. The guidelines confuse the message and the messenger.

The cause of inflation is simply too many dollars available to buy too few goods and services. When there are too many dollars relative to products, the dollar price of those

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products will go up. *The rising prices are the result, not the cause.* The rising prices are just telling us that there are an excessive number of dollars chasing a scarce amount of goods around. Only when an anti-inflation policy attacks the root cause of those excess dollars will inflation be controlled.

The number of dollars—our country's money supply—has increased about 6 per cent per year for the past 5 years. Prices have increased about 6 per cent per year over the same period of time. This close relationship between increases in our nation's money supply and increases in prices has been traced back and verified for as many years as we have data. So, the immediate cause of inflation is an excessive increase in the supply of money. To effectively control inflation, we must get to the reasons why our money supply has been expanded at such a high rate.

Federal Spending

The basic reason for such excessive monetary expansion is that the federal government has persisted in spending far more than its income. The gross federal debt has increased by more than $300 billion in the past five years. That $300 billion was borrowed, some of which otherwise would have been available for investment in productive facilities. That diversion of funds from private investment to public spending in itself would reduce productivity and produce a sluggish economy. But the inflationary forces were unleashed when part of that $300 billion of borrowing was supplied indirectly through the Federal Reserve System.

Guidelines can bring inflation under control, but they must be guidelines to curb federal deficit spending.

The "Fed" is the agency that controls the amount of money in the economy. When the federal government borrows heavily, the Fed is under pressure to step in and help supply the needed funds. The trouble is that the Fed supplies those funds by simply printing more money! As those new dollars find their way into the economy, unmatched by an increase in goods, the inflation process begins.

The only way to end that inflation, then, is to halt the rapid increase in the supply of money. But the only way to curtail the monetary expansion is to curtail the deficit spending of the federal government. Guidelines can bring inflation under control, but they must be guidelines to curb federal deficit spending. *Government spending guidelines will reduce inflation—wage and price guidelines won't.*

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The Outlook

Suppose that we continue with this futile experiment in controlling inflation by wage and price guidelines. What will be the outcome?

First, inflation—in one form or another—will continue unabated. To the extent that businesses and employees comply with the guidelines, the inflation will be disguised but nonetheless present. To the extent that the guidelines are ignored, prices will continue to rise at a rapid rate. If this happens, there is certainly the possibility that mandatory wage and price controls will be imposed. If the price network won't die through voluntary actions, we will execute it!

Test your memory: what was the rate of inflation in August, 1971, just before mandatory price controls were last instituted? In 1978, consumer prices rose in excess of 9 per cent per year, and the average increase over the past 5 years has been in excess of 6 per cent per year. If inflation were to continue at even 8 per cent per year, the general price level would *double* in 9 years!

Now, what was the inflation rate back in 1971? Less than 4 per cent, and it was declining. Compared with the present economic conditions, that was a period of stable prices—yet mandatory controls were imposed on wages and prices because of the rate of inflation!

Mandatory controls will work no better than voluntary guidelines in bringing inflation down. Mandatory controls will drive more of the inflation into disguise, but they will not get rid of it. To eliminate inflation, there is but one answer, and a simple one at that. Issue guidelines and impose controls, but aim those guidelines and controls at the real cause of inflation—federal deficit spending. Those are the only controls and guidelines that will work. ⊕

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World in the Grip of an Idea

Clarence B. Carson

33. Conclusion: Loosening the Grip of the Idea

As this piece is being written there is a hint of spring in the air. The ice has melted away, and the weather has turned mild. A gentle rain has fallen, preparing the earth for a new season. A moment ago, I heard a bird chirping outside. The sap has begun to rise in the trees; the matted down grass blades look here and there as if they might be changing color from brown toward green; flowers not yet ready to bloom are nonetheless pushing gently upward toward the sun. In a few weeks, if I mistake not, tiny green leaves will be thrusting forth from the branches of trees, flowers will be blooming, the people will be emerging joyfully from their winter cocoons. The earth which lately looked so glum will be suddenly supplied, as it were, with new raiment in an ever recurring annual cycle.

Even so, experience teaches that however hopefully we anticipate the coming of spring we should be wary as well. Spring will not be likely to arrive without a great struggle in the atmosphere. The warm winds blowing up from the south collide time and again with the cold winds

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In this series, Dr. Carson examines the connection between ideology and the revolutions of our time and traces the impact on several major countries and the spread of the ideas and practices around the world.

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from the north as winter gives ground grudgingly to spring. From these collisions there are often thunderstorms, heavy rains, floods, high winds, and even tornadoes, the most locally devastating of all natural phenomena. The best things in life are not free; there is always a price to pay. Stormy weather is the price we pay for spring.

But then, on the heels of these things there comes a very special moment—a few hours, a day, or, when we are lucky, several days—for all who will attend it. It is a day when the sun shines brightly, when the last bit of chill has gone from the air, when the wind has finally blown itself out and a near stillness is upon the earth. The fragrance of flowers fills the air, the birds are singing, and animals are at play. It is a time for sitting or lying under a tree, for stopping the never ending struggle, for drowsing if that should occur, or just for peaceful contemplation. At such moments, a man may be as near to peace and a sense of harmony with nature as he gets, a nature against which he has so often struggled. He may feel himself at the threshold of some great truth. Perhaps he is. It is a time for reading and pondering these words of Jesus:

"And why take ye thought for raiment? Consider the lilies of the field, how they grow; they toil not, neither do they spin:

"And yet I say unto you, That even Solomon in all his glory was not arrayed like one of these.

"Wherefore, if God so clothe the grass of the field, which to day is, and to morrow is cast into the oven shall he not much more clothe you, O ye of little faith?

"Therefore take no thought, saying, What shall we eat? or, What shall we drink? or, Wherewithal shall we be clothed?

"But seek ye first the kingdom of God, and his righteousness; and all these things shall be added unto you."[1]

A Lesson in Economics

Some of these passages are surely not to be taken literally. No one is supposed to conclude that because lilies neither toil nor spin that man need not do so either. There are some crucial differences between lilies and man. If man were literally to stop giving thought to what he would eat, drink, and wear tomorrow, the cupboard would almost certainly be bare. Although the ostensible subject of these passages is faith, they also contain a lesson in economics. A part of the message I glean from the quotations can be stated in this way. Do not engage in vain struggles to accomplish what you would do. (The verse which immediately precedes those quoted reads, "Which of you by taking thought can add one cubit unto his stature?") Get yourself in accord with the nature of things. Be right, first, and what is good and desirable

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will follow from your efforts. But to grasp the full import of this, it is necessary to delve into basic economics.

One difference between the lily and man is that man is totally dependent upon outside sources for his energy supply. The lily is not, of course, completely self-contained and self-sufficient. In order to grow, it requires sunlight, water, and certain minerals. The water and minerals it extracts from the soil, and sunlight does the rest. It makes its own energy—its food supply—by a process of photosynthesis. Another difference between man and plant is that man can think—even to taking thought for the morrow. And perhaps the most critical difference, man is a moral being—with the capacity even for seeking righteousness first. It is these differences in combination that give rise to economy, i.e., man is energy dependent and energy in usable forms is scarce. He uses his intellect to acquire energy efficiently, and morality prescribes what means are rightfully available to him. Man is mobile, too, and the plant is not; this gives more scope to his efforts at economy.

Household and Market

Economy assumes two forms, and two only. There is, first, the economy of the *household*. It may also be thought of as the economy of the family, but the term will not serve in all cases. Not everyone lives in a family, but everyone has a household, even a tramp who has only a can of beans and a makeshift shelter. The other is the *market* economy. It can also be thought of as a money economy, but the term is not quite so inclusive, for it is possible to have a market without money. It would be more precise to call it an exchange economy, but that does not distinguish it so well from the household economy in which there may be some elements of exchange. There are those who speak of an interventionist economy, but so far as intervention holds sway it is not an economy. The same goes for a "planned" economy.

There are some similarities between the household and market economies. Exchanges may occur in both, though exchange is essential to the market and usually incidental to the household. Division of labor usually occurs in a household of two or more people, and always in the market, or, more precisely, it brings the market into being. Each has a rightful claim to the title of economy, for each deals with the allocation of scarce resources.

But the differences are much more pronounced than the similarities. A key difference is that the household is primary, basic, and fundamental; while the market is secondary and derivative. The household is a center of value; the market is only a

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utility. The household is a miniature community; the market is a mechanism. Labor is an asset in the household; it is a cost in the market. There are no prices in the household ordinarily; whereas, the prime activity of the market is the determination of prices. The household is local and limited: its locale circumscribes what can be efficiently produced; it is limited to the wants and productive capacities of its members. Potentially, the market is world-wide and encompasses the wants and productive capacities of all the people in the world.

In actuality, we usually encounter the household intertwined with the market economy. This can lead to the conclusion that there is nothing more to household economy than what is presently described as consumer education, i.e., that it consists of the most effective means for utilizing the market. On this view, the household tends to become an extension of the market. This reverses the normal relationship, making the market basic and the household contingent. This might be of no great consequence in a free market, but when intervention has proceeded to great lengths such a dependence on the market lays the household open to political control.

The *modus vivendi* of the market is *advantage* or *gain*. Men enter the market in quest for something different from or better than what they have. They seek their own advantage by trade. Each person trading in the market must be assumed to be pursuing his self-interest, else there is and can be no market. In order to see this it is necessary only to imagine two people trying to make an exchange with each other in which neither wants what the other has. If an exchange took place, it could only be by gift. That would be the practical result, too, of each seeking only the well-being of the other. In the final analysis, it could only be an exchange for the sake of exchange.

An Assault on the Market

The idea that has the world in its grip is an assault on the market. This is so, most basically, because it is an attempt to remove the individual pursuit of self-interest from social relations. If this could be done, there would be no market. But there would also be no economy which could be regulated, controlled, or managed. No means would exist for coordinating or concerting all human effort for the supposed common good. In fact, socialism cannot dispense with the market entirely, any more than it can dispense with the motive of self-interest. It can, as already noted, level its attack at the independence of the individual. This it does. In doing this, the market, or a truncated version of it, is a prominent and essential means. Organization and numbers, as already dis-

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cussed, are the means by which it does so.

Gradualists use the market much more broadly than do communists. By taking away much of private property, communists remove one of the basic conditions of trade. At the same time, however, they establish a near absolute dependence upon some sort of market for people to get a livelihood. Thus, while the market has only an attenuated existence in communist countries, what there is of it, free or not, is much more important than in gradualist countries.

Intervention to Grasp Power

Be that as it may, the crucial theorem for an understanding of the impact of socialism is this: *The more firmly the grip of the idea is fastened on a people the less the advantage to the individual of exchanging in the market.* To put it another way, the more government intervenes in, controls, and occupies the market, the less the chance of gain for the individual in the market. That is not to say that there are not gains to be made in the hampered market, but they are gains increasingly to those in a position to manipulate and use government to effect their gains. That is not an arena for individuals acting alone; it is an arena for groups, for collectives, for organizations, and for conglomerates—those who can mass numbers and organizations so as to grasp the handles of power. Such activity is a way of life in every "advanced" country in the world today. In well-run communist countries, the rulers often perceive advantage in favoring groups, but the flow of power tends to be one-directional—from the rulers to the ruled.

We live in a world in which conditions are rigged against the individual. The market is increasingly rigged against him; the penalties that attend its use increase, and the costs of trading there become prohibitive. Government is rigged against him; it attends almost exclusively to collectives and organizations and concerns itself only with matters where large numbers are involved. (The courts are a partial exception to this, but predicting court decisions has become an increasingly parlous game).

The individual appears to be on the horns of a grotesque dilemma. Either he must operate individually in a market rigged against him or he must become a part of some collective and yield up management of many of his affairs to the group. To put it perhaps too dramatically, it looks as if the individual must hang alone or be hanged with the collective. That is not a socialist slogan; it is the future toward which socialism leads.

Is there a way out? Let us look again to the lilies of the field. There

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are three lessons, at least, to be learned from the lily, or almost any other plant, for that matter. They can be concisely stated this way:

1. Mind your own business.
2. Provide for your own sustenance.
3. Fulfill yourself.

We know already, of course, that in applying these lessons we must keep in mind that man differs from a field plant in that he is mobile, rational, and moral. The lessons are valid, but it does take imagination to apply them.

One's Own Business

Much of the toiling and spinning that is going on in the world today is worse than wasted effort; it is obstructive and counter-productive. The attempt to concert all effort—to manage economies, to fit everyone into the effort as a cog in a machine, to project the future from the past—runs aground on human nature and arouses resistance rather than productive effort. The attempt to transform man into an ant can no more succeed than would an effort to make a lily into an oak. The biological case against this possibility was well expressed a while back by Aldous Huxley:

> In the course of evolution nature has gone to endless trouble to see that every individual is unlike every other individual. We reproduce our kind by bringing the father's genes into contact with the mother's. These hereditary factors may be combined in an almost infinite number of ways. Physically and mentally, each one of us is unique. Any culture which, in the interests of efficiency or in the name of some political or religious dogma, seeks to standardize the human individual commits an outrage against man's biological nature.[2]

The deeper case for the individual provided by Christianity has already been discussed.

Plants are especially adept at minding their own business. They put down their roots wherever the seed has fallen and reach outward to such supplies as they can use. No lily ever poked its petals out and launched any such plaint as the following: "Would you look at this situation! There is too much vegetation hereabout and too little water and minerals to go around. Look at that huge maple over there. It's going to drain all the water and minerals from the soil. All the lilies need to get together and see that each plant gets no more than its equal share. Moreover, we have got to do something about the uncontrolled reproduction of crabgrass." It is not that the lilies, considered as a class, may not have such problems; it is rather that it is no part of their business to deal with them. Each lily deals with its own particular difficulties of getting enough water, minerals, and sunlight.

Loosening the grip of the idea which has us in its hold requires an

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emulation of the lily. The idea extends its sway by bidding us conceive of the whole world as our business. A recent civics textbook (usually taught in junior high school) describes a portion of the world-wide problems which confront us this way:

> In 1976 U.N. Secretary-General Kurt Waldheim said: "The problems which face mankind are common to all nations and all areas. It is not possible to resolve them any more by purely national, or even regional, responses. Slowly we have realized that we are physically and economically interdependent on this planet."
>
> What are the world wide problems which all nations face? Among them, most scholars agree, are:
> - poverty and hunger
> - over-population;
> - the using up of *limited natural resources*. . . .[3]

Pitfalls of Vanity, Immorality, and Tyranny

There is Divine warrant for believing that these problems are none of my business, that I should give no thought to them, and am to continue on my way without regard to the morrow. Why? Because, in the first place, it is vain to think on such things. It is vanity for me, one who knows not the ends to which a single child is born, to speculate about such matters as over-population. More, think as I will, I can discern no way generally to reduce poverty and hunger without using up limited natural resources.

In the second place, thinking on such things leads to the contemplation of actions I believe to be wrong. Should the world's goods be redistributed by force? But that would be theft, and Thou Shalt not Steal. The authors of the above text suggest the direction such thought takes:

> If people live longer, the population will get even larger—unless fewer people are born. Should we try to cut the birth rate and work to enable people to live longer? Should we set an age limit beyond which we would not help people to live?[4]

In the third place, tyranny is the logical conclusion to which such thinking leads. Aldous Huxley described it as the Will to Order in the social realm and described its process this way:

> Here the theoretical reduction of unmanageable multiplicity to comprehensible unity becomes the practical reduction of human diversity to subhuman uniformity, of freedom to servitude. In politics the equivalent of a fully developed scientific theory or philosophical system is a totalitarian dictatorship. In economics, the equivalent of a beautifully composed work of art is the smoothly running factory in which the workers are perfectly adjusted to the machines. The Will to Order can make tyrants out of those who merely aspire to clear up a mess. The beauty of tidiness is used as a justification for despotism.[5]

It would never occur to me to go

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about telling my neighbors how many children they should have. Nor would I think of advising my neighbors to cease all efforts at keeping the elderly among them alive. Were I to do so, I should most likely be told to mind my own business. And rightly so. Yet, once one's mind is bent by the idea that has the world in its grip, many people experience no difficulty in accepting the use of force to compel what they would hardly think of making efforts to get done voluntarily at the local and concrete level. Minding one's own business is the essential first step in loosening the grip of the idea.

Coercively Involved

But what is one's own business? A Secretary General of the United Nations has said, in effect, that my business is entangled with everyone else's business. The peoples on this planet "are physically and economically interdependent," he has said. Let us spell out a little of what may be meant by this. If my money is being taken to pay the hospital fee for an infant being born, how many children that family has does become my business. If my gasoline supply is determined by the actions of OPEC nations, I am in some measure dependent on them. It is at least possible that what they do becomes my business. If I buy hospitalization insurance, or automobile insurance, or any sort of insurance, my rates *may* be determined by the behavior and carelessness of others.

To untangle this web, we need some distinctions. The distinction between a market economy and an interventionist economy needs to be made. The rule in the market economy is *quid pro quo*. There is a saying regarding legal settlements that goes like this: "Leave nothing on the table." It means that nothing should be left to be resolved later, that all accounts should be settled. The meaning of *quid pro quo* is that all parties to a transaction have fulfilled their commitments and that measure for measure has been given. Neither owes anything further to the other. Such transactions take place all the time. I drive up to a service station and order five dollars worth of gasoline. The attendant pumps two gallons, or however much it takes to equal five dollars at his prices, I pay five dollars, and that is that. A *quid pro quo* has been given, and nothing has been left on the table.

Activity in the market does not, of itself, entail either dependence or interdependence. The free market in a money economy is really a mechanism for making exchanges by people who retain their independence one of another. Even in contracts where some dependence is established, that dependence is tem-

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porary and limited. "Leaving nothing on the table" does not mean that there may not be obligations to be satisfied in the future. The phrase is used in real estate transactions in which there may be warranties running for several years and payments to be made for as much as thirty or more years. It means, rather, that all these obligations are specificed, agreed to, and thereby limited.

"Left on the Table"

Government intervention intrudes force into the market. To the extent that force plays a role *quid pro quo* is not the rule. Indeed, the idea that has the world in its grip aims to remove *quid pro quo* from social relations, for *quid pro quo* depends on the working of individual self-interest just as does the market itself. In consequence, transactions in the market do tend to establish the kind of dependence that is unlimited and may well be described as interdependence. When force is used in the market "something is always left on the table." What is "left on the table" is, at the least, whatever was extracted by force. Dependence is established, because the transaction is never completed.

Let us take a simple example. Let us return to the service station and the transaction involving purchase and delivery of five dollars worth of gasoline. Something *was* "left on the table." The price included a state and Federal gasoline tax. I did not get my full *quid,* though he may have got his *quo.* In fact, I did not get five dollars worth of gasoline; I only got $4.40, say. The service station operator and I are not quit of each other. How he runs his business has become in some measure my business. It has become my concern, though I may not be aware of it, that he pay the taxes collected into the proper government collection agencies. Beyond that, it becomes my concern that the money is properly spent on goods or services which is in accord with the law.

Of course, much more than sixty cents was "left on the table." However much more I had to pay than I would have had to pay without the collusion of the OPEC cartel was left on the table. All the tribute paid to tax collectors, union wages, and so forth during the whole of the process of getting gasoline to and from the pump was left on the table. A whole set of dependencies and interdependencies were entailed in the transaction, many of which are very much my business.

Self-Supporting

Before going further with this analysis, it is in order to return to the second lesson to be learned from the lily—To provide for your own sustenance. The lily is equipped to make its own food literally by photo-

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synthesis. Man is, as already noted, energy dependent. Even so, man is normally equipped with the means for establishing his independence. His mobility enables him to range in quest of sources of energy and to make exchanges with others. His rationality enables him to accumulate capital and use tools to provide for himself and his own. His morality enables him to cooperate with others, to distinguish between what is his and what belongs to others, and enjoins him to works of charity in aid of those unable to provide for themselves. That he be responsible for himself and fulfill his obligations is a necessary condition of his independence as a man.

Man's independence is contingent upon his household economy. It can be stated simply this way: Man can be independent to the extent that and so long as his household consumes no more than he has produced. Participation in the market does not fundamentally alter this axiom. The market enables individuals to specialize by providing the means for exchanging what surplus they may have for that of others. Nor do debts which may be contracted in the market alter the axiom; they can only defer for a time the balancing of accounts. Debts do tend, however, to reduce the independence of the individual if they are not counterbalanced with more or less liquid assets.

An individual may enhance his independence in the free market. By contrast, when government intervenes to regulate, control, and use the market for its ends, the individual can lose his independence in the market. As already indicated, government intervention intertwines everyone's business with everybody else's. Transactions tend to lose their limited character and to draw those who engage in them into a continuum of effects that extend on and on. Rather than augmenting his independence in the market, the individual is drawn into a web of dependence and interdependence. In these circumstances, the more the individual depends upon the market the less his control over his affairs.

Controlling the Individual

There is another facet to government activity in the market. Governments use the market primarily as their means of controlling and using the individual. They collect most of their taxes there. (In the United States, the income tax is collected, where possible, by the employer, and that is in the market too.) They depend upon the market for prices on the basis of which taxes are levied. Beyond that, in gradualist countries, most controls are exercised through the medium of the market.

At the present time there are two ways to loosen the grip of the state

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on the individual. One is by the concerted action of peoples to place constitutional restraints and limits on governments. My belief is that this will only be likely to occur when the idea that now has the world in its grip has lost its hold. That does not have to occur on a worldwide scale, of course, and if it happens it will most likely do so country by country. I know of no country in the world where such an event appears imminent. But when the time is right, those with a will to do so can discover readily the principles on which government should be limited.

But people will be ready for limited government and a free market only when they are ready to assume responsibility for themselves and their own. Silk purses cannot be made from pig's ears, and freedom cannot be imposed upon a people. Only a people who believe that man is a value will have freedom. Only those who have a high estimate of man and his potentialities can conceive of it as desirable for him to be free.

The greater our dependence upon others, the further are we removed from freedom. People do not revolt and establish freedom when oppression surpasses tolerable limits. They limit governments only when oppression becomes something they are unwilling to tolerate. Oppression is not a preparation for freedom but rather for greater oppression. The way for freedom is prepared by the successful practice of individual responsibility. The man who assumes responsibility for himself and his own is on his way to freedom, regardless of what others may be.

Penalties on Market Activity

The other way to loosen the grip of the state, establish individual independence and responsibility, does not require concerted actions of people. Where there is private property, it can be done by individuals and families. The way is to rely less and less on the market and more and more on the household. The household economy is the basic—even the "real"—economy; the market is only an extension of it. It is becoming increasingly expensive to use the market to supply the wants of the household. Social Security taxes, income taxes, sales taxes, import duties, excises, utility companies with monopoly privileges, international cartels, extortions by organized labor, and so on almost endlessly place heavy penalties on market activity. The division of labor loses much of its advantage as the cost of transport mounts. Moreover, the more the market is regulated the less able it is to serve the wants of the individual.

What I am suggesting is already occurring as a trend in the United

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States. More and more people are learning to do-it-themselves, to maintain and repair their automobiles, to do their plumbing and electrical work, to grow some portion of their food, to make their clothes, to cut hair, and to do a thousand and one other useful things. The more they do for themselves the less they are taxed in providing for their wants. The more closely they come to a household economy the less is the control of others over them.

The potentially valuable impact of this turn toward a household economy is the impact it can have on loosening the grip of the idea, too. The idea that has the world in its grasp is a grandiose idea. It is one that casts thought in the framework of groups, classes, races, nations, and the world. Those who think in terms of the household economy have already to some extent loosened the grip of the idea. They are thinking in terms of producing their own goods with the least expenditure of the means of production. That is what economy is about. When the market is an adjunct to their economy, they will no doubt use it.

Fulfill Yourself

The final lesson from the lily is this: Fulfill yourself. We know what that means for a lily. It means to develop a sturdy stem which can support its flowering and production of seeds. But under the sway of the idea that has the world in its grip we are losing our grasp of what it means for a man to fulfill himself. We have well-nigh perfected the science of making machines, but we are on the way to losing the art of developing men. This is so because we are under the sway of an idea which childrenizes the race. It views man as a reflex of class, race, nation, and the people. Its thrust is to devise a scheme which will provide for them as if they were infants and control them as if they were irresponsible children. Beyond that, it is to concert their efforts to provide for the needs of everyone. It is a plan of human sacrifice. It makes of individual man only a means.

Man fulfills himself by becoming an adult, by developing his faculties, by exercising his skills, by becoming responsible for himself and his own, by making choices, and by realizing his potential. Man does not naturally fulfill himself as does the lily of the field. He must be nurtured as an infant, trained as a child, educated as an adolescent, and held responsible for his acts as he grows toward maturity. The surrounding society may aid and sustain him throughout life. Government has for its task to protect his life and property.

It is not in derogation of society, of organizations, or of whatever other groups there may be that it is ob-

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served that they are all adjuncts to the individual; they are servants not masters. Man too is a servant at his best, but he is at his best only when he is serving at his own good will and in ways that he decides.

The Road to Tyranny

It is idle, vain, and potent with destruction for men to take thought for the morrow of the human race. It is from such thought that ideologies are constructed. Such schemes are but plans for subordinating and subduing other men to the will of those who conceive them. Coordinating economies is an activity beyond the capacity of any man, and a task for which there is no warrant or commission. Control over others is a thing to be shunned, not sought. The good parent finds joy in seeing his child taking over the management of his own affairs. The successful parent is humbled by the accomplishments of his offspring, for he sees in them much that could not have come from him. The effective teacher is one whose students surpass his limited conceptions. Any plan that entails the use of others without their individual consent is a presumption. He who puts such a plan into effect is a tyrant.

The idea that has the world in its grip is a promise of eternal springtime. It is a vision of arriving at that special moment of spring and remaining there forever. It is delusion. The idea brings destruction in its wake, not the euphoria of springtime. It brings discord, hatred, war, terror, and the massed force of the state. That is its record. The only element of springtime in the applied idea is, figuratively, storms, tornadoes, floods, and violent winds. Amidst these, it offers not shelter but insoluble problems of ever greater dimension.

When storm clouds descend, the traveler upon the road longs for the security of home. It is a sound instinct. Confronted with elements beyond his power to control, he longs for a mansized place which he can order and manage. Home has ever been the sign and symbol of that place of refuge. To return to it is a return to basics, a return to fundamentals, a return to what life is about. The storm recedes in importance as the returned traveler enters the familiar household.

Such joys of springtime as man can have come from minding his own business, providing for himself and his own, and fulfilling himself.

But what will become of us if we make these things our primary concern? How will we get all the goods that we need or want? Will we not be drowned in a mass of humanity resulting from over-population? How will the hungry be fed? Will we not use up our limited resources? "O ye of little faith." "Consider the lilies of the field, how they grow; they toil

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not, neither do they spin: And yet I say unto you, That even Solomon in all his glory was not arrayed like one of these."

It is for man to put his own house in order, not to order the world. "But seek ye first the kingdom of God and his righteousness; and all these things shall be added unto you."

Let it be so. ⊕

—FOOTNOTES—

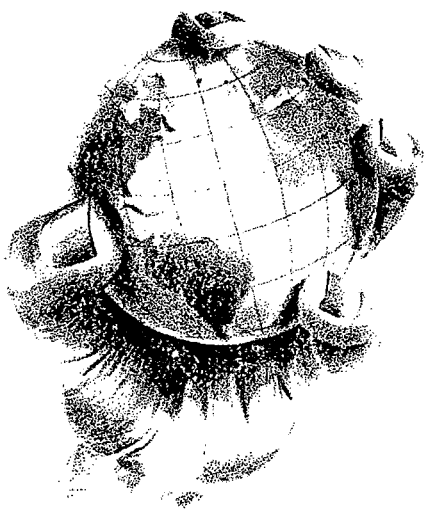
[1]Matthew 6:28-31, 33.

[2]Aldous Huxley, *Brave New World Revisited* (New York: Harper & Brothers, 1958), p. 26.

[3]Steven Jantzen, Carolyn Jackson, Diana Reische, and Phillip Parker, *Politics and People* (New York: Scholastic Book Service, 1977), p. 159.

[4]*Ibid.*, p. 172.

[5]Huxley, *op. cit.*, p. 28.



This concludes the series. An Arlington House version of *World in the Grip of an Idea* is in the works, and will be duly announced in *The Freeman* and in *Notes from FEE* just as soon as publication date and price are known.

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FOREIGN POLICY

Bettina Bien Greaves

ALMOST everybody wants peace and prosperity. Certainly government officials profess a desire to promote peaceful cooperation among peoples and they devote much time and energy to "international relations." Yet almost daily the press, radio and TV report international tensions—in southeast Asia, southern Africa, the Middle East, Latin America or the Orient. As human beings are not perfect, possibilities will always exist for mistakes, misunderstandings, disagreements and disputes that could grow into widespread conflicts. So the task of those concerned with foreign policy is twofold—(1) to contain local quarrels and (2) to minimize the possibility of such conflicts in the future.

It is natural for people to trade with one another. No doubt men came to understand the advantages of voluntary transactions long before the dawn of written history. Persuading others to part voluntarily with some good or service, by offering them something in exchange, was usually easier than doing battle for it. Certainly it was far less dangerous. Barring force, fraud or human error, both parties to any transaction expect to gain something they value more than what they are giving in exchange. Otherwise they would not trade. This is equally true of trades among friends or strangers, fellow countrymen or foreigners, small enter-

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prises or large—whether located next door to one another or separated by many miles or national borders. Trades may be complex, if intermediate transactions or different national currencies are involved, but the principle remains the same. Both parties expect to gain from a voluntary transaction. So people who trade with one another have both good reason to remain friendly and just cause to resent interferences that hamper or prohibit their trading.

Most consumers care more about the availability, quality and price of what they buy than they do about who makes it or where it comes from. If a particular gasoline works well in their cars, they don't care whether the oil came from Arabia, Alaska, Venezuela or Algeria. Consumers will buy Taiwanese shirts, Hong Kong sweaters, Brazilian shoes, German cars, Japanese radios, or any other foreign good, if price and quality suit them. And satisfied customers promote good will.

Economic Nationalism

It is governments, not consumers, that make national boundaries important. It is governments, not consumers, that create national distinctions and promote economic nationalism, often without intending to do so. A tax on U.S. citizens, not required for protecting lives and property or defending the country, increases production costs unnecessarily. Regulations and controls to "protect" consumers, workers, manufacturers, farmers, miners, truckers, the environment, or any other special interest also raise domestic production costs. Benefits to special groups—the unemployed, elderly, handicapped, minority enterprisers, or those awarded lucrative government contracts—must be paid for by others, in taxes or through increases in the quantity of money which in time hurt everyone. All these programs increase costs and make voluntary transactions more difficult and expensive.

As production costs increase, some producers find their sales dropping so they must curtail production and reduce their work force. Many persons then believe it even more important to enact special legislation, erect trade barriers or grant government subsidies, to support the injured firms and protect them and their workers from foreign competition. But such programs only increase domestic production costs still more. This further hampers the ability of would-be traders to carry out voluntary transactions.

The goal of economic nationalism is to protect domestic producers from foreign competition. Its proponents want to preserve a specific pattern of production. They do not understand the mutuality of trade. They do not

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realize that both parties gain from a successful voluntary transaction. Nor do they recognize the inevitability of change.

Nothing in this world stands still. People move. The wishes of consumers change. Their knowledge is continually shifting. Changes also take place in stocks of available resources and the most economical places in which to produce particular items. Producers, investors and workers should be free to move about and adjust to these many changes as best they can.

Any attempt to maintain, for political reasons, some rigid pattern of production is bound to fail. Insofar as production is guided by political, rather than economic, motives, it becomes more expensive and wasteful. When government seeks to reduce dependence on imports and increase national self-sufficiency, consumers must get along with fewer goods and services of lower quality; and their standards of living will decline.

Foreign Policy Repercussions

Restricting imports by government fiat reduces exports also. How can foreigners continue to buy as much from us, if our government restricts their opportunities to earn dollars by selling goods in this country? The mutual gains that come from trading turn traders into friends. But when trading is hindered, ill will has a chance to develop. Frustrated would-be traders look for someone or something to blame. Officials of foreign governments become antagonistic to the U.S. government, for they realize their producers' sales to this country are hampered by our government's interference. However, few U.S.citizens blame their government for imposing trade restrictions. Many even consider the federal government a benefactor. For when imports and exports decline the federal government often tries to make up for lost trading opportunities by offering those who are hurt direct or indirect assistance—subsidies, relief, new protective regulations, and so on. But such government programs can never compensate would-be traders fully for opportunities forgone, reduced production, and the loss of individual self-respect.

The advocates of free trade pointed out more than a century ago that "if goods do not cross borders, soldiers will." As fewer exchanges take place across national borders, individuals have fewer opportunities to know and respect one another. Antagonism, animosity and enmity among nationals may arise. We have seen this happen in recent years—in India and Pakistan, Southeast Asia, the Middle East, southern Africa, and elsewhere. Obstacles to the path of trade made transactions across national boundaries more and more difficult,

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expensive and infrequent. The common bond which could have turned their international traders into friends was weakened. Those who could have helped each other through voluntary transactions had no cause to come together. They remained strangers and, in time, were even led to consider one another enemies.

Government intervention, which begins by distinguishing between domestic and foreign goods and producers, leads in time to a policy of economic nationalism which actively discriminates in favor of domestic products to the disadvantage of imported goods. This hurts not only foreign producers, whose goods are excluded from the domestic market. It also harms domestic consumers and producers. Production costs rise so that fewer goods can be produced and sold. With fewer goods and services available for everyone, living standards decline.

Localizing Conflicts

The sure way to turn local disputes into widespread conflicts is for outsiders to interfere. The first step in that direction often springs from a sincere sympathy on the part of the strong for the weak, the "rich" for the "poor," the "haves" for the "have nots." Officials of one nation offer to help defend a weaker country against the threats of stronger neighboring states. But by taking sides in this way, neutrality is abandoned. No matter how well-intentioned, such government-to-government economic aid and mutual defense agreements show favoritism which can lead in time to military actions and wars. Through U.S. commitments such as NATO, SEATO and SALT, as well as various treaties, pacts and executive agreements—relating to the Middle East, China, Russia, Panama, Japan, various African nations, and more—we could well become embroiled in local violence or border disputes, at almost any instant, almost anywhere in the world.

U.S. involvement in the Middle East undoubtedly began with a sincere sympathy for Jewish refugees who wanted to establish a homeland in Israel. Our involvement in Vietnam has been traced by some to a desire to help relieve France, when she was economically and financially strained by military operations in her colonial Indochinese territories, so as to persuade her to join NATO. "We do not plan our wars; we blunder into them" as history professor Henry Steele Commager has pointed out.

George Washington's advice in his Farewell Address (September 17, 1796) is still sound: ". . . nothing is more essential than that permanent inveterate antipathies against particular nations, and passionate

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attachments for others should be excluded, and that in place of them just and amicable feelings toward all should be cultivated . . . The great rule of conduct for us in regard to foreign nations is, in extending our commercial relations, to have with them as little *political* connection as possible." And similarly, Thomas Jefferson urged "peace, commerce, and honest friendship with all nations, entangling alliances with none" (First Inaugural Address, March 4, 1801).

U.S. involvement in this century in two World Wars as well as Korea and Vietnam is due to the fact that U.S. foreign policy has been guided by precisely the opposite ideas from those Washington and Jefferson advocated. To contain local violence, a nation should avoid taking the first step toward abandoning neutrality and playing favorites. Thus, we should refuse to add to the many international commitments our country is now duty bound to honor. Then we should move toward the foreign policy recommended by our third President—"peace, commerce, and honest friendship with all nations, entangling alliances with none."

Minimizing Future Conflicts Through Free Trade

To minimize conflicts in the future we should aim to create a world in which people are free to buy what they want, live and work where they choose, and invest and produce where conditions seem most propitious. There should be unlimited freedom for individuals to trade within and across national borders, widespread international division of labor, and worldwide economic interdependence. Would-be traders should encounter no restrictions or barriers to trade, enacted out of a misguided belief in economic nationalism and the supposed advantages of economic self-sufficiency. Friendships among individuals living in different parts of the world would then be reinforced daily

> WHEN the baker provides the dentist with bread and the dentist relieves the baker's toothache, neither the baker nor the dentist is harmed. It is wrong to consider such an exchange of services and the pillage of the baker's shop by armed gangsters as two manifestations of the same thing. Foreign trade differs from domestic trade only in so far as goods and services are exchanged beyond the borderlines separating the territories of two sovereign nations.
>
> **LUDWIG VON MISES,** *Human Action*

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through the benefits they reap from buying and selling with one another. Thus a sound basis for peaceful international relations would be encouraged.

Individuals should have the right of national self-determination and even to shift national political boundaries, if they so voted in a plebiscite. For practical and economic reasons, a single administrative unit would be sovereign within the political borders so established. But this administrative unit would have to be responsive to the wishes of the people or face being ousted in the next election. It would have to do its best to protect equally the private property of every inhabitant and to respect the rights of all individuals within its borders, irrespective of race, religion or language. In such a world, members of racial, religious or linguistic minorities need have no fear of political oppression for being different. Any nation which adopted these policies at home and in its relations with other nations would help to reduce international tensions and so contribute to minimizing future conflicts. But once it began to play favorites again—to grant privileges to some to the disadvantage of others, to introduce restrictive controls and regulations—it would be reembarking on the path that leads to friction and conflicts among individuals, groups and nations.

World Peace

To maintain peace throughout the world, the grounds for conflict should be reduced as much as possible. The first step in this direction must be to respect and protect private property throughout the world. The ideal would also include complete freedom of trade and freedom of movement. Political boundaries would no longer be determined under threat of military conquest or aggressive economic nationalism, but rather by legal plebiscite, i.e., by vote of the individuals concerned.

> WAR is never a handy remedy, which can be taken up and applied by routine rule. No war which can be avoided is just to the people who have to carry it on, to say nothing of the enemy. . . . In the forum of reason and deliberation war never can be anything but a makeshift, to be regretted; it is the task of the statesman to find rational means to the same end.
>
> **WILLIAM GRAHAM SUMNER,** an essay on "War" from *The Conquest of the United States by Spain and other Essays*

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In such a world, the national sovereignty under which one lived or worked would be relatively immaterial.

Daily news reports certainly indicate that we are a long, long way from approaching this ideal. Programs intended to promote world peace often lead in the opposite direction. The various intergovernmental institutions—the United Nations and the several regional political and economic communities—do little or nothing to reject economic nationalism. The debates and proposals of their representatives reveal little understanding of the mutual advantages private traders gain from voluntary transactions. They do not even appear to consider the possibility of leaving trade to private individuals and enterprises to arrange as they see fit. Rather they continue to delegate important powers to various governmental authorities to regulate and control quantities and qualities of imports and/or exports, sometimes even to set minimum or maximum prices at which certain commodities may be traded. In their desire to protect various fields of production within their newly erected borders, they foster economic nationalism over geographical areas larger than a single nation. Thus, although the spokesmen for these multinational organizations sometimes talk of "freer trade," their actions lead to less free trade.

The foreign policy that would minimize future conflicts would promote an economic climate in which voluntary trades among private individuals would flourish because private property was protected worldwide. To create such a climate calls for widespread economic understanding. To maintain it would require eternal vigilance.

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Thomas W. Hazlett

F. A. Hayek: Classical Liberal

IF George Will has deemed us "Inmates of the Twentieth Century," and Eric Hoffer has decried our time as "hectic, soaked with the blood of innocents, irrational and absurd," then it is most fortuitous that we have the writings of F. A. Hayek as a refreshing oasis of sanity. Now in his 80th season, this 3-letter scholar (Ph.D's in law, political science and economics) has risen to his most commanding position of influence, topped by his receipt of the Nobel Prize in Economics (awarded jointly with Gunnar Myrdal) in 1974. Symbolically, it is cause for great hope that when the *London Times* carried Professor Hayek's picture in its May 18, 1978 issue, they chose to caption it: "F. A. Hayek: the greatest economic philosopher of the age."

It wasn't always so. Least of all in the eyes of the *London Times*. As Patrick Cosgrave wrote in the article adjacent to the photo:

> He [Hayek] has lived long enough to see the twin assumptions he has spent his career attacking begin seriously to fail in their power of convincing. The first assumption was that greater and greater intervention by the state in, and greater and greater control by the state over, the economic process, was a necessary concomitant of progress, efficiency and equality. The second was—central planning having failed to be efficient—that greater and greater regulation by the state of income and rewards was compatible with individual freedom.

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This article appears here by permission from his introduction to an interview with Professor Hayek, being published as a pamphlet by the IIER.

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His Star Ascends

It is in the swirling winds of a turbulent political climate, a climate turning cold to socialism, that Hayek's stock is perking up. And as his star ascends, much credit is extended to his iconoclastic observations from less friendly times. "The engine of Hayek's return to favor," comments Cosgrave, "was inflation, which he had always predicted would be the inevitable consequence of the infiltration of Socialist ideas about social engineering into modern democratic government. It remains to be seen whether his second prediction—that the failures of Socialism and socialistically inclined governments lead inevitably to tyranny—will be allowed to come true."

Yet it is coming true—before our eyes, not to mention our wallets. Bureaucrats in centralized government offices are today charged with the authority to dictate who may be promoted in their jobs according to certified racial quotas, where children may attend school, what political discussions are engaged in by (private) radio and television stations, what prices companies may charge and what wages laborers may receive, which artists and social scientists may receive tax subsidies, what parts of the country may receive energy supplies made short by federal price controls, what safety equipment consumers must add to the cost of their automobile, what medicines a heart patient may use in an attempt to save his life, what artificial sweeteners a weight-watcher may add to his diet cola, ad infinitum. What could be more redundant today than a complaint against arbitrary, unreachable bureaucrats? Citizens increasingly cry out against "unresponsive administrators"—always in a tone of helplessness. But, demagogues excluded, who might tell us why it is that "you can't fight city hall"?

In his 1944 best-seller, *The Road to Serfdom,*[1] Hayek forewarns precisely why:

> When the government has to decide how many pigs are to be raised or how many busses are to be run, which coal mines are to operate, or at what prices shoes are to be sold, these decisions cannot be deduced from formal principles or settled for long periods in advance. They depend inevitably on the circumstances of the moment, and, in making such decisions, it will always be necessary to balance one against the other the interests of various persons and groups. In the end somebody's views will have to decide whose interests are more important; and these views must become part of the law of the land, a new distinction of rank which the coercive apparatus of government imposes upon the people. (p. 74)

Hayek has inhabited the ivory tower for better than 60 years, yet,

[1]University of Chicago Press, 5801 Ellis Ave., Chicago, Ill. 60637.

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since he gave up on socialism in his early twenties, has never been taken by collectivism's press releases. In quoting Tocqueville in *The Road to Serfdom,* Hayek shares with us the classic analysis of government control:

> "Democracy extends the sphere of individual freedom," he said in 1848, "socialism restricts it. Democracy attaches all possible value to each man; socialism makes each man a mere agent, a mere number. Democracy and socialism have nothing in common but one word: equality. But notice the difference: while democracy seeks equality in liberty, socialism seeks equality in restraint and servitude." (p. 25)

While Western nations have, for all intents and purposes, left the idea of "hot socialism," as Hayek calls it, they still dance with the seductive political notion of state control in "high priority" social problem areas, thus creating a convoluted political compromise perplexing to socialists and capitalists alike, and leading us into slavery.

> Although we have been warned by some of the greatest political thinkers of the nineteenth century, by De Tocqueville and Lord Acton, that socialism means slavery, we have steadily moved in the direction of socialism. And now that we have seen a new form of slavery arise before our eyes, we have so completely forgotten the warning that it scarcely occurs to us that the two things may be connected. (p. 13)

And for the "used-to-be-liberals" who have come to realize that good intentions are not sufficient to secure good results, Hayek's most important service may be as an advance warning system alerting us to what may happen when the heart is in the right place but pumping a bit too fast. "Only if we understand," Hayek explains, "why and how certain kinds of economic controls tend to paralyze the driving forces of a free society, and which kinds of measures are particularly dangerous in this respect, can we hope that social experimentation will not lead us into situations none of us want." (Foreword)

What we should want, in Hayek's estimation, is a renewed determination to set free the unpredictable creative juices of individuals. This requires not anarchy, but rather an extension of the Liberal Order, that tradition of government well-defined and clearly limited by the Rule of Law. To Hayek, the chief victory of Western Man has been the removal of much of government's coercive power from the realm of arbitrary whimsical "public servants," and the subsequent ensuring of a healthy, *secure* area of social activity in which all may take whatever actions they will so long as they are willing to shoulder the associated costs. In our ascension from a society of status to one of contract, Hayek observes the essential

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ingredient of the "rule of law" as opposed to "the rule of man":

> The true contrast to a reign of status is the reign of general and equal laws, of the rules which are the same for all, or, we might say, the rules of *leges* in the original meaning of the Latin word for laws—*leges*, that is, as opposed to *privileges*.

Hence, the legacy of classical liberalism survives with Hayek.

Hayek and Keynes

"When the definitive history of economic analysis during the nineteen thirties comes to be written, a leading character in the drama (it was quite a drama) will be Professor Hayek. . . . It is hardly remembered that there was a time when the new theories of Hayek were the principal rival of the new theories of Keynes. Which was right, Keynes or Hayek?"

—Sir John Hicks, 1971 Nobel Laureate, "The Hayek Story" in *Critical Essays in Monetary Theory*, Oxford, 1967, p. 203

The 1930s were troublesome, momentous times. For economic thought, they were also a watershed. It was then that the negative connotation which had always shrouded the term "government spending" dissolved, to be replaced by an aroma of high-minded civic virtue. While in 1932 Franklin Roosevelt could swing key precincts by blaming the Depression on President Hoover's profligate federal spending policies, all the successful political job-seekers of a very few years hence were boastfully promising deficit budgets, government employment and "stimulatory" policies. This was the Keynesian Revolution.

The academic alibi for the Keynesian Revolution was Lord John Maynard Keynes. In his 1936 treatise, *The General Theory of Interest, Employment and Money*, he offered theoretical explanations for the idea that depressions were spawned by insufficient consumer demand, and vice versa. That is to say, unemployment is caused by a fall in "aggregate demand" and "aggregate demand" falls as unemployment increases. All of which leads to a vicious circle of poverty and joblessness.

It was easy for the masses to believe in vicious circles in 1936. Of course, it had always been easy for the governing class to believe in vicious circles (or anything else) that called for them to administer heavy doses of public sector remedies. Such, as coincidence would have it, was just the Keynesian bromide. The lasting impact of *The General Theory* may be viewed as a prescription from the desk of Dr. Keynes, written permission from the economic establishment to support the addiction which the political community had been so long try-

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ing to acquire. *The General Theory* turned a bad habit into "medicine."

The treatment? When consumers "demanded" too little, the government should demand more. Translated into political jive: tax, tax, tax, spend, spend, spend, elect, elect, elect.

"The New Economics"

The governing class received Keynes' doctrine with an enthusiasm reserved for great wars and holy crusades. So completely was the Keynes "solution" to unemployment embraced by the academic and political worlds that their master, Lord Keynes himself, was unable to deter the march. As Professor Axel Leijonhufvud has recently demonstrated, much of what passed for "Keynesianism" was in conflict with the actual economics of Keynes.

Yet Hayek kept his head while all about were gasping over the New Economics. Where magical Keynesian potions guaranteed prosperity by paying a million workers to dig trenches and another million to fill them back in, Hayek never flinched. The world had not been turned on its head by Lord Keynes or the traumatic 1930s, there remained a world of scarcity, there was no free lunch. If Hayek appeared crazy to the point of irrelevance in maintaining these beliefs thirty years ago, he seems quite the prophet to have had such a track record today. For in our post-New Economics era, where are those martyrs who will still boast of government mega-spending to bring us economic bliss?

As the fashionable designer labels have fallen from the Keynesian emperor, those disillusioned with the panaceas of "fine-tuning," "pump-priming," and "government stabilization policy" have discovered Hayek anew. The simultaneous appearance of inflation and unemployment—which the crude Keynesian model specifically ruled out—has turned virgin utopianism into pregnant reality. Today people are ready to listen when Hayek says, as he wrote in 1975:

> The present unemployment is the direct result of the short-sighted "full-employment policies" we have been pursuing during the last 25 years. This is the sad truth we must grasp if we are not to be led into measures that would make matters only worse. The sooner we can tear ourselves out of the fool's paradise in which we have been living the better will be the chance that we can keep the period of suffering short. (*Full Employment at Any Price?*, p. 11)[2]

Hayek does not, moreover, simply dispense competing panaceas:

> I find myself in an unpleasant situation. I had preached for forty years that the time to prevent the coming of a depression was in the boom. During the

[2]*Transatlantic Arts, Inc., N. Village Green,* Levittown, N.Y. 11756.

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boom nobody listened to me. Now people again turn to me and ask how the consequences of a policy of which I had constantly warned can be avoided. I must witness the heads of the governments of all the Western industrial countries promising their people that they will stop the inflation *and* preserve full employment. But I know that they *cannot* do this. (p. 15).

The Hayek solution, not in favor with advisors to political candidates, is straightforward:

What we must now be clear about is that our aim must be, not the maximum of employment which can be achieved in the short run, but a "high and stable" (i.e. *continuing*) level of employment, as one of the wartime British White Papers phrased it. This however we can achieve only through the re-establishment of a properly functioning market which, by the free play of prices and wages, establishes for each sector the correspondence of supply and demand.

Though it must remain one of the chief tasks of monetary policy to prevent wide fluctuations in the quantity of money or the volume of the income stream, the effect on employment must not be the dominating consideration guiding it. *The primary aim must again become the stability of the value of money.* (p. 27)

Hayek vs. Pseudo-Science

Any discussion of Hayek must include his brilliant attack on the methods of social scientists in general. As a witness to the mushrooming arrogance of fellow economists, sociologists, and psychologists to direct human behavior and to control personal choices and relationships, Hayek has emerged (along with his close friend and convert Sir Karl Popper) as a superb critic of the academic prejudice known as "scientism."

As an unparalleled student of history, the evolution of political ideas and the emergence of social institutions, a fully-armed Hayek has gone to battle for the free will of individuals in their struggle against the tyranny of today's white-coated totalitarians. While B. F. Skinner may talk about a world "beyond freedom and dignity," where all is planned to be "rational" and "optimal" by those who *know* what those words really mean, Hayek understands that nothing can be known to be either of these things outside of the context of free human behavior. "Rational" and "optimal" are no less subjective to Hayek than is "happiness"; and all attempts to make the human experience an objective problem of mere technical equation-solving is at once an intellectual error and a moral crime.

The crux is that contemporary social thinkers often tend to see liberty as a nuisance. It foils their calculations and botches their experiments. Hayek is relentless in his appreciation of human liberty as the inimitable innovator which creates the very progress which social scientists seek to duplicate and supplant.

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Freedom to Hayek is far from an unmanageable, intractable, troublesome variable, but the pervasive determinant for advancement in each and every compartment of our social life.

Freedom and the Spontaneous Order of Society

So it is that Hayek champions "the spontaneous order." This stands in contradistinction to the human laboratory of B. F. Skinner and his numerous accomplices. The spontaneous order is what motivates the development of the common law, of language, of manners and customs, of liberal constitutional government, of the competitive market economy. In short, it is the unplanned, unplannable genius of men and women just getting along. It is the fabled "invisible hand" of social progress; it is not reproducible in the social alchemist's test tube, no matter the contempt with which he might regard individual enterprise, creativity and adaptability.

As Arthur Shenfield elaborates:

> Scientism is the uncritical application of the methods, or of the supposed methods, of the natural sciences to problems for which they are not apt. In the present context it is their application to problems of human society. Thus it is in its very nature unscientific—an idolatry, not an understanding, of science. As Hayek says, "The scientistic as distinguished from the scientific view is not an unprejudiced but a very prejudiced approach which, before it has considered its subject, claims to know what is the most appropriate way of investigating it." And what is claimed to be the most appropriate way turns out to be inappropriate. (*Essays on Hayek*, p. 63)[3]

Hayek's intimate contact with this part of society that "is the product of human action but not of human design" led him to his greatest insights in theoretical economics. Take the idea of a market, for instance. A market sets a price equating supply and demand for a commodity, and thereby tells the whole system how much that particular good is worth relative to other scarce resources. This allows everyone to make their plans accordingly. They can determine how important it is to economize on this good, or to produce it, or to switch to substitute goods. By looking at the price—determined by the market—the allocation problem of any good, be it gold, hockey games or Gatorade, is solved. Every single person may discover how much he should produce, and how much he should consume. That, unquestionably, is a paramount advance for society.

But the astonishing fact is that no one invented a market. Markets are not made, they just happen.

[3] *Essays on Hayek* by various authors, edited by Fritz Machlup. Hillsdale College, Hillsdale, Mich. 49242.

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They are the spontaneous organic result when individuals who, acting only in their narrow self-interest, cooperate with each other to satisfy their diverse needs and aspirations. Freedom allows trial and error to test whatever plans innovators are willing to chance; self-interest pushes all the rest to imitate the innovations that work. In precisely the same manner does the institution of language spring up from the free flow of individuals just trying to communicate for their own purposes; nobody "builds" a language. The "macro" conclusion of this "micro" process is an innovation enormously beneficial to all social creatures.

Of similar shock value is the realization that this key institution runs on its own energy source. No one *creates* a market, and no one administers it after creation. No central agency takes responsibility for issuing orders to make sure that prices equate supply and demand; no one tells consumers or producers what their buying and spending plans should be. From spare parts to watermelons, the irrepressible forces of supply and demand set prices that automatically create the proper incentives so that the amount demanded will approximate the amount supplied—*without any one person* knowing the whole reason (or anything close to the whole reason) why.

The Socialist Controversy

In thus digging to the roots of our institutions, economic and otherwise, Hayek extracted his most consequential theoretical discovery: "The Use of Knowledge in Society." In his famous 1945 paper by this title, he demonstrated that the basic economic problem in society was to make the best use of all the information available for satisfying our wants. The unique, over-riding feature of this economic information, however, is that "the knowledge of the circumstances of which we must make use never exists in concentrated or integrated form but solely as the dispersed bits of incomplete and frequently contradictory knowledge which all the separate individuals possess." (*Individualism and Economic Order,* p. 77)[4]

While people are accustomed to thinking of "information" in a technical sense, like how to get oil out of the ground or how to manufacture steel, such scientific knowledge is actually closer to background music for purposes of enhancing our material well-being. If prosperity simply required proper engineering, after all, Soviet Russia (or the U.S. Post Office) would work. Hayek showed that the most essential economic "facts" are tiny bits of information "of time and place."

[4]Gateway Editions, Ltd. Box 207, South Bend, Ind. 46624.

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Central administration of economic activity must lose this special, individualized information. Bureaucratic offices have tremendous resources to obtain general information such as statistics, opinion polls, and econometric models as well as technical, scientific data. But bureaucrats are helpless to make the best use of all this precisely because they have no way to capture *specific* bits of information as to what *individuals* may do to contribute. And it is the individual consumer, producer, worker or entrepreneur who must actually make choices and perform the work.

The result is that if central planners make economic decisions from "above" without the contributions of these individuals directly involved, the system has lost an incredible sum of knowledge. The attempt to "control" economic affairs by central planning ends up creating a system wherein *less* knowledge is utilized, precisely the opposite we had "planned." Centralized directioning, in addition to transferring power over decisions from individuals to bureaucrats, creates a loss of efficiency and thereby a wealth reduction for the society as a whole. Hayek details:

> Today it is almost heresy to suggest that scientific knowledge is not the sum of all knowledge. But a little reflection will show that there is beyond question a body of very important but unorganized knowledge of general rules: the knowledge of time and place. It is with respect to this that practically every individual has some advantage over all others because he possesses unique information of which beneficial use might be made, but of which use can be made only if the decisions depending on it are left to him or are made with his active co-operation. We need to remember only how much we have to learn in any occupation after we have completed our theoretical training, how big a part of our working life we spend learning particular jobs, and how valuable an asset in all walks of life is knowledge of people, or local conditions, and of special circumstances. To know of and put to use a machine not fully employed, or somebody's skill which could be better utilized, or to be aware of a surplus stock which can be drawn upon during an interruption of supplies, is socially quite as useful as the knowledge of better alternative techniques. The shipper who earns his living from using otherwise empty or half-filled tramp-steamers, or the estate agent whose whole knowledge is almost exclusively one of temporary opportunities, or the *arbitrageur* who gains from local differences of commodity prices—are all performing eminently useful functions based on special knowledge of circumstances of the fleeting moment not known to others. (*Individualism and Economic Order*, p. 80)

And so we see the ultimate wisdom of human beings acting freely with no direction save self-interest in what might naively appear as useless, wasteful activities. This brings us full circle on the Hayek

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globe, for in understanding the value of individual knowledge and enterprise in the economic sphere, Hayek is able to blend the interests of both our material wants and spiritual yearnings. Liberty doesn't trade for prosperity. On the contrary: Freedom works. This became Hayek's enduring contribution, still in effect, to the so-called "Socialist Controversy."

Social Philosophy at Its Best

What remains to be reported, happily, is that there is more to Hayek than brilliant scholarship and an admirable attachment to human freedom. Here is a moving, delightful expositor of the tide of man's affairs; a writer who may burst an explosive social theory without the simultaneous bursting of your patience. Hayek's forte is clarity. His gift is an awesome grasp of logic. So powerfully does he thrust his reader from premise to conclusion that the inevitable destination is accompanied with an irrepressible passion for ideas. It is the way social philosophy should be done.

Arthur Shenfield writes of his reaction to three of Hayek's articles in *Economica* (1942-44) introducing him to the author by way of the dry topic of "Scientism and the Study of Society."

> When I read them I became stout Cortez (or Balboa) on his peak in Darien. To this day I remember the tingling excitement which they evoked in me. Since then, the roll call of Hayek's works on the fundamental problems of society arouses in those who grasp their message a peak of admiration which is now familiar.

This striking sort of impression is witnessed in scores of cases. Lord Keynes was "deeply moved" by Hayek's *Road to Serfdom*. And Patrick Cosgrave couldn't avoid noting that "there is an Arctic ruthlessness about his brilliant logic which seems, most of the time, to refuse houseroom to the . . . warm-hearted schemes for human improvement by government action which have paraded themselves in dazzling succession before our bewildered eyes."

A Scholar in Many Fields of Knowledge

Hayek's tremendous breadth as a scholar is surely a factor in his persuasiveness. He has indeed lived up to his impersonal observation that "he who is only an economist cannot be a good economist." His academic writings grace every topic from law to sociology to philosophy, not to mention economics, history, or politics. One of his great thrills, he claims, was to recently learn that a well regarded college in Pennsylvania was assigning his 1950 *The Sensory Order* in a psychology class. When he taught at the University of Chicago (1950-1962) one of his duties as Professor of Social and

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Moral Science was to conduct a weekly seminar of "staggering catholicity," according to Shirley Robin Letwin. The group included two nuclear physicists, one a Nobel Prize winner; "an Irish classicist, completely master of Shakespeare, Gibbon or Tolstoy, as of Sophocles, Plato and Thucydides;" a French Thomist; the two most eminent Chicago School economists, both world-famous; "a classical archeologist . . . the author of *The Gothic Cathedral* and the author of *The Lonely Crowd* as well as the inventor of the 'folk society.' "

As Dr. Letwin describes:

> Hayek presided over this remarkable company with a gentle rectitude that made his seminar an exercise in the liberal virtues. Every remark, however fatuous, no matter how obscure or young the speaker, was heard to the very end with a respect that the weaker members found maddening. The general subject was liberalism and no one was in any doubt about Hayek's convictions. But students who hoped to shine by discovering apostasy to an official creed learned to seek other paths to glory. Hunting for the holy grail was definitely out of order. The seminar was a conversation with the living and the dead, ancient and modern; the only obligation was to enter into the thoughts of others with fidelity and to accept questions and dissent gracefully. (*Essays on Hayek*, p. 148)

As history remembers Hayek it will be told that his great quest was to ask why liberty is so slippery to our grasp. While other current social scientists have devoted their research to discovering programs to replace free and spontaneous human interactions by imposed "scientific" solutions, Hayek has prowled about to find why classical liberalism, which has given Western Man so very much, is being cashed in for a statism which promises neither peace nor freedom. Nor, most obviously, prosperity. In fact, socialist, real-world experience has been so bitterly painful that those contemporary reformers who clamor for increased state intervention have given up the pretense that such controls can give us more than free markets and free men. Instead they argue that material well-being and economic improvement are memories gone by and that the future holds a more modest portfolio. That the government will be in charge of choosing this portfolio helps to guarantee the claim, so that the confident prophecy is self-fulfilling and recyclable.

Yet, for those who would rather look to a future which offers liberty for the oppressed and progress for the poor, there can be no better resource guide than the writings of F. A. Hayek. His fine and sensitive touch with the subtlest workings of human (and humane) civilization will sprinkle us with understanding for millennia to come.

It is, of course, juvenile to debate

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any scholar's place in history's archives, particularly when we are still blessed to have him among us. Yet, what can safely be claimed is that if the generations to follow are lucky—very lucky—it will come to pass that our Twentieth Century was not the age of the Hitlers, the Stalins and Mao Tse-tungs; but rather the time of the Einsteins, the Solzhenitsyns, and the Friedrich von Hayeks. ⊕

WHAT is threatened by our present political trends is not just economic prosperity, not just our comfort, or the rate of economic growth. It is very much more. It is what I mean by the phrase "our civilization." Modern man prides himself that he has built that civilization as if in doing so he had carried out a plan which he had before formed in his mind. The fact is, of course, that if at any point of the past man had mapped out his future on the basis of the then-existing knowledge and then followed this plan, we would not be where we are. We would not only be much poorer, we would not only be less wise, but we would also be less gentle, less moral; in fact we would still have brutally to fight each other for our very lives. We owe the fact that not only our knowledge has grown, but also our morals have improved—and I think they *have* improved, and especially that the concern for our neighbor has increased—not to anybody planning for such a development, but to the fact that in an essentially free society certain trends have prevailed because they made for a peaceful, orderly, and progressive society.

This process of growth to which we owe the emergence of what we now most value, including the growth of the very values we now hold, is today often presented as if it were something not worthy of a reasonable being, because it was not guided by a clear design of what men were aiming at. But our civilization is indeed largely an unforeseen and unintended outcome of our submitting to moral and legal rules which were never "invented" with such a result in mind, but which grew because those societies which developed them piecemeal prevailed at every step over other groups which followed different rules, less conducive to the growth of civilization.

F. A. HAYEK, remarks in *What's Past Is Prologue,* 1968

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The Tiller, the Van, and the Typewriter

Ruth B. Alford

When the union moved into the university where I worked (moved in, may I say, by hook and by crook), I looked down the road and foresaw a collision course. So, on the side, I made plans.

I had already bought and joyfully used a genuine six-horsepower electric-start Troy-bilt rototiller with excellent results in my own garden. Could I, at my age, till gardens for others for money? I could try.

But how to get the tiller from here to there?

I studied the problem of trailers versus vans versus pickup trucks from front to back and back to front and sideways to see what was best for me. I decided, in the end, on a van. It would transport the tiller and anything else I wanted, plus providing me with a camper for traveling. You can get from front seat to rear, or vice versa, in a van, without ever stepping outdoors, a prudent thought if you should land in rough company and need to get away.

Further, if the economy should continue its downward plunge, the van could even provide desperation housing.

I invested in a van. Just about the time it came, so did the first strike. Not in favor, yet in sympathy with my friends, I did not picket but I respected the lines and stayed out. I put an ad in the paper and got out there and tilled gardens.

There was usually a look of apprehension as a gray-haired grandmother wheeled up and unloaded her tiller. But as the earth pul-

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verized to a remarkably workable consistency, and no heart attacks seemed imminent, the customers relaxed and were delighted. Most paid in cash. One person paid an equivalent amount in meat from her freezer—most welcome.

The strike was settled. Work resumed. Then I was told that I must either join the union and pay dues or not join and pay dues anyway (due to an agency agreement). In my ignorance, before then I had not even heard of "agency shop." What! I was outraged. Pay to keep the job I loved and had essentially created! Pay for a service I neither needed nor wanted! Pay protection money!

No! I set my grandmotherly heels and said, "O.K. Do your worst."

Time passed. I made a third investment, a typewriter—a sturdy, upright model that could be used anywhere, electricity or not. Off and on over the years I had been writing, occasionally selling. I hoped to do a lot more of both.

So, when the union cracked the whip, I was ready.

Let me diverge here, to say just *why* I opposed the union's demands. I'll try not to go on too long about it, but if you are to understand why I took such a strong stand, I have to explain the situation.

Many people join the union, not thinking too much about it, as it seems the only reasonable thing to do at the time. I read the pledge card, all the fine print, and was not about to sign *that*—to pledge my honor equally to the union *and* to the United States of America; to sign over to the union the sole right to represent me in any and all matters relating to my employment; to swear not to divulge any of the secret proceedings of the union (what if I were a member and had a disagreement with union policies?); to agree that, should I resign from the union I would automatically lose my job. Not only did I refuse to join, I refused to pay to the support of an organization which exacted such a pledge.

Union promoters say over and over again that those who share in the benefits should share in the cost—hence "agency shop" agreements. What if the union does not bring benefits? Money is not everything on a job. It had been my observation that when a union comes in, strikes inevitably follow. I don't like the method. My way of getting ahead on a job, which has certainly always been effective, has been to consider that I am there to get the work done. The result of strikes is disruption of necessary work, polarization of employer and employees, antagonism between employees, regimentation and virtual loss of merit pay, and loss of income both to individuals and to the community at large.

It is my strong contention that

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anyone should be able to join a union, even to strike if they so wish, but not be able to force others to do the same. The right to join must be balanced by the right not to join—or to pay.

There. That sums up my position.

The crisis came in the fall. I had been receiving epistles from the union which I mentally, if not actually, threw in the wastebasket. I assumed I was working for the university. On September 15 I was called to the personnel office and told to pay up or be "terminated" on September 21. Six days' notice!

I was stunned. Six days to phase down a complex operation!

My work was as curator (a sort of librarian) of preserved plant and insect collections. These specimens had been assembled over the years, some being a hundred years old, and were a most valuable record of the plants and insects of different areas. There they were, not just a picture or description of a given plant or insect, subject to the artist or author's error, but the actual organism, always capable of being taken out and restudied. The specimens were used in teaching, in research, and as historical vouchers. Because it was a relatively small collection (about 20,000 plants), and I was the only worker, I did a variety of tasks—collecting, pressing plants, pinning insects, mounting, cataloguing, making up special teaching mounts, assembling displays for classes on request.

All that, clubbed down in six days, solely because I could not in conscience pay to an organization which intervened between me and my employer!

Well, I had been terminated. What now?

Back to my three allies, the tiller, the van, and the typewriter. I tilled gardens. I baby-sat. I typed furiously, completing a book and some shorter works. I balanced through the winter on half-time employment elsewhere—that bitter winter of 1976-1977. I acquired another responsibility: My eighty-nine-year-old mother came to live with me, I being the only child who was at home enough to have her. While I was at it, I completed the requirements for my M.S. in biology.

Came the spring. Time for decision.

I had one more security, a major one. Several years earlier I had seized the opportunity to buy a small farmhouse and farm in Michigan's Upper Peninsula. I had always planned to move north one day, after giving adequate notice to the university (six months to a year) and turning the work over to a successor in orderly fashion.

I weighed all the factors: my mother, who needed increasing care; my ambition to write; my refusal to

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work any place where I must join a union; the rising cost of living in Ann Arbor, where half-time work was not enough to keep my head above water; my love for the north country. On the negative side: moving away from friends and family (but they could come to visit); the hazards of no certain income. The answer, I decided, was to move north, to take my chances on my writing, to consolidate everything in one grand effort.

Then followed the exhaustion of packing and sorting, of selling off, of breaking the myriad threads—getting change of address cards from the post office; phoning the gas company, the telephone company, the Edison. Saying goodbye to friends. Be sure to write. Yes, of course, I'll write.

When I moved to the farm, I went in faith and hope and terror. There I would be, launching into the unknown. I alone would be responsible for plumbing, repairs, getting around in the severe winters. No family nor close friends would live near.

We came on Memorial Day weekend, by U-Haul. Two sons drove the truck up and unpacked everything, while I drove more slowly, bringing my mother. Small granddaughter came along for the ride. A week before the move I was sure of only one person to help with the loading. On the day, eleven people appeared and packed and loaded me out of there.

It has been like that all the way. I would set my sights on something and work toward it and somehow, incredibly, it would work out. I've forgotten who said it: "The steps of faith fall on the seeming void and find the rock beneath."

There we were.

Chaos.

As soon as I had a narrow channel cleared from sink to stove to refrigerator, I set up the typewriter in my bedroom/office, and tilled and planted the garden. Life was going to be frugal, and every carrot would count.

There was, to begin with, a commission to write a booklet on plant collecting and preservation for a biological supply company—a good solid commission. That was first writing priority. Every day I put in at least four hours at the typewriter. The rest of the day I unpacked, sorted, cooked, cleaned, gardened, made repairs.

At first the electric pump did not work, so I pumped and carried from the hand-operated one in the yard—marvelous for exercise. We have excellent fall-back systems here. If the electric pump (now installed) does not work, I just take a bucket and go out and get water. The kitchen range burns wood in one end but also has electric burners. The main heat comes from an

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oil space-heater. If that goes out, the kitchen range will hold off the cold. If the drains freeze or otherwise stop up, there is a wooden privy beyond the windbreak. The electric water heater did freeze last winter, but we heat water on top of the stove or else use the sauna—the most efficient, warmest, most civilized way ever devised to take a bath in a cold climate.

Repair of the electric pump and of a crumbling foundation neatly cleaned out the savings account. Since then I have existed on a series of fortuitous money sources: the sale of the plant-collecting booklet; a few days' work back at the university, instructing my successor; a completely unexpected gift from my sister; repayment of a long-standing loan.

The garden was not the greatest, but I utilized every vegetable that reared its head, and canned and froze vegetables and fruit from there, from gifts from visiting friends, and from purchases. I have studied the gardens of my neighbors, learning much, so that next year that department should show improvement. Perennial fruits and vegetables already started are asparagus, strawberries, red and black raspberries, rhubarb, multiplier onions, Hansen bush cherries, and apples.

To improve the garden soil, every drop of dishwater, with its phosphates and bits of refuse, as well as the wood ashes and every scrap of garbage, go on the garden. Also two lovely loads of manure were applied. The tiller will churn the soil deeper and deeper as time goes on, making the garden better each year.

Just living, day by day, has been a rich experience. The air here is fresh and sharp, the sky a brilliant blue, with white clouds like great puffs of steam moving in off Lake Superior. Clouds of birds utilize the evergreen windbreak for nesting in summer. One day I counted twenty-eight swallows, mixed barn and tree swallows, on the electric wires. My yard, in May, is starred with blue forget-me-nots. The roadsides are a riot of wildflowers all summer—ox-eye daisies, yellow buttercups, orange hawkweed, pink and white mallows, white everlastings and yarrow. Later goldenrod and tansy and the varied blues of asters signal the approach of fall. The cooler season transfigures the landscape in late September and early October, and even after the peak of the red maples against yellow poplar and green conifers passes, there is a muted succession of smaller splashes of color. In mid November (rather late this year) the snow began to fall, a beautiful, clean snow, piling to drifts a foot deep the first snowfall. Since then it has snowed nearly every day. The place looks like a Christmas card, with

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the little farmhouse set against the forest green of spruce and pine.

Each day I go out and use my ingenious Finnish snow scoop. Imagine a squarish, galvanized metal scoop, on runners which extend upward to form handles. You never lift the snow; you push it, dumping it off the scoop in some un-walked spot. I can make paths all over the yard and never puff.

My new neighbors have been unbelievably kind, helping me with all sorts of problems, from lifting heavy things (like the new oil heater), to selling me good cord wood at a modest price, to giving me precious practical advice. "There's going to be a frost tonight [mid-August], better cover the garden."

Out came odd tubs, bedspreads, rugs, even cardboard, to cover the tender tomatoes, squash, beans, and cucumbers for that night and six subsequent nights, after which the weather warmed up again and all was saved.

Snowshoes were a going-away present. I've tried them and they work! No particular effort. Just don't try to turn too rapidly, and think like a duck. Some women near here go on showshoe hikes. I'll try that some day, when I have a companion to stay with my mother.

My mother finds the country beautiful, exclaiming over the number of trees, the blue of the sky, the cloud formations, the length of the icicles pendant from the roof, and the depth of the snow.

Of course there have been problems. Lawnmowers which won't start. Leaky plumbing. Storm windows to putty and put up. Getting stuck in the heavy red clay soil, which my neighbor describes as being like wet soap. The howling wind storm in early winter, following unseasonably warm weather, when the power went off for an hour and an half, which gave me a chance to assess the performance of my systems under stress, and to make changes before the weather got colder.

The van carts everything: storm windows, a used oil tank from a salvage place, groceries, junk, straw. In time I hope to build a handy in-and-out-going cart so I can haul dirt and manure.

There have been rejections of my writing. Oh, my, yes, there have been rejections. Back and back have come the fat envelopes, returning my manuscripts. "We are sorry but this does not meet our present needs." "Our refusal in no way implies criticism of its merits." "We wish you success in placing it elsewhere." I have even begun to study the variations in the form of the rejections, with an eye to their courtesy and ingenuity. Perhaps there should be an award, "The Rejection Slip of the Year."

Doggedly I keep on writing and

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sending out. The post office knows me well. I buy sheets of stamps, which disappear alarmingly. (Some day, somewhere, my work will catch.) Each day, the eighth-of-a-mile walk to the mailbox brings a feeling of suspense. Will today be the day of a sale?

Today I sit at my typewriter, looking out over the top of the parked van to the snow falling softly down on the pointed conifers, the fields beyond. I think of the tiller, parked snugly in the shed, waiting to do its turn, come spring. I feel content, confident that I will survive, taking pleasure in my day-to-day life and in my work.

Power Politics

WITH government controlling more and more of our economy, the fact that crooks have to go where the money is causes more and more of them to turn to government employment.

However, there is probably an even stronger reason for individuals to become politicians.

That is the *power* which accompanies political office.

Many idealists think they know better than the ordinary person what is good for that person. They consider themselves a cut above the ordinary individual who just isn't smart enough to know what he or she should do.

Idealists seek government power to impose their ideas upon the rest of us. They may be personally honest insofar as not thinking of lining their own pockets with money but have little compunction about bolstering their egos with government power.

This attitude explains the environmentalists, the do-gooders, and others whose ego causes them to seek government power to impose their ideas upon those of us who just want to make our way in a free market in open competition with everyone else. They don't believe in a free market or voluntary actions. They do believe in controlling others by means of government power.

HARRY HOILES, editorial from *The Register*, Santa Ana, California, June 2, 1979

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Memoirs of a Dissident Publisher

To MEET Henry Regnery, one would never suspect him of being a revolutionary. He is self-contained, even placid. He does not raise his voice. He is not a sleeve-plucker. But, working out of a small publisher's office in Chicago with little support from the book sellers and only sporadic encouragement from reviewers, he has been one of the more potent movers and shakers in the American conservative movement.

He tells the story of his publishing ventures in an engagingly modest autobiography, *Memoirs of a Dissident Publisher* (Harcourt Brace Jovanovich, 757 Third Avenue, New York, N.Y. 10017, 260 pp., $12.95), that is in thorough keeping with his character. Always honest with himself, he had an affinity for honest men who are finding it difficult to get a forum in a world dominated by the quasi-collectivists who had appropriated the word "liberal" to describe their illiberal philosophy. He had some money from his father's business, he had the support of his Quaker-bred wife, Eleanor, who believed in his inner light as well as her own, and he retained enough business sense to keep clear of bankruptcy even while doing good for its own sake. With these quiet advantages he picked up authors who, though they scarcely realized it themselves, were just on the verge of capturing new audiences for which the Establishment publishing authorities had no feeling and no use.

The list of conservative and libertarian writers who were either floated or rescued by the Regnery imprint now makes a "Who's Who" of a movement that is coming of age. Regnery published Bill Buckley's *God and Man at Yale* on a tip from Frank Hanighen of *Human Events,* he accepted Russell Kirk's epochal *The Conservative Mind* in its im-

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pressive entirety after Knopf had demanded that it be cut to a quarter of its length, and he gave many a dissident in the field of foreign affairs (Freda Utley, William Henry Chamberlin, Charles C. Tansill, George Crocker) his or her head. In between times he did not neglect poetry, belles lettres and religion, publishing books of consequence and taste even though they did not anticipate the apocalypse.

Studies in Germany

In his diffident way Henry Regnery would have you believe that he became a publisher because he was not fit to be anything else. His own record belies his modesty. He decided against an engineering career after two years at Armour Tech, but he continued to pursue a mathematics major at M.I.T. At M.I.T. he met students and teachers who deflected him from the "dull winter of mathematics and physics" to more exciting pursuits in music, art, languages and philosophy. At the behest of a young German friend he spent two years in the German Rhineland, studying at Bonn and listening to all the music that he could absorb. Regnery's forebears, on both his father's and mother's side, had come from the Mosel region near Trier, so Rhineland Germany seemed home to the young student. Hitler had not yet succeeded in Nazifying the region, and the genocidal purge of the Jews was still a few years away.

The German experience taught Henry Regnery that not all Germans are Prussians, and gave him a special feeling for the opposition to Hitler whose plottings might have ended the war at an early stage if Roosevelt had not insisted on unconditional surrender. Returning home to New Deal America, Regnery studied economics at Harvard under Schumpeter, learning something of "the realities of the world." He began to distrust the fashionable intellectuals who had illusions of their own importance, but he retained enough faith in the New Deal to spend a summer working for Rexford Tugwell's Resettlement Administration.

Quaker Influence

After qualifying for an M.A. at Harvard he took a job with an American Friends Service Committee community project in western Pennsylvania which offered a voluntaristic version of the Tugwell theories. Using funds raised by the Quakers from private foundations, the so-called Penn-Craft community hoped to establish an industry to sustain homesteaders who could no longer find work in the mines or at the abandoned coke ovens. The most advantageous event to come out of Henry Regnery's brief association with Penn-Craft was his meeting

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with Eleanor Scattergood, the daughter of a prominent Quaker family. After their marriage, they spent a short time working with the Penn-Craft pioneers, but the time had come, so the young couple felt, for something more permanent. Henry Regnery tried to return to his father's textile business, but soon, as he says, he found himself sliding into publishing "almost imperceptibly."

The young Henry began with pamphlets, an offshoot of his connection with *Human Events,* a publication started in Washington toward the end of the war by Frank Hanighen and Regnery's Quaker friend Felix Morley. One thing led to another, and a collection of Communist documents assembled by Raymond Murphy of the State Department, too voluminous for pamphlet issue, inevitably became a book, *Blueprint for World Conquest,* with an introduction by William Henry Chamberlin. The *Human Events* pamphleteering introduced Regnery to more and more people who did not conform to what he perceived to be the "dominant opinion" of the times, which was all in favor of accommodation with Stalin abroad and an extension of welfarist collectivism at home.

The "dominant opinion" included Henry Morgenthau's plan for turning the German Rhineland and Ruhr into a permanent industrial waste. Henry Regnery, remembering his own German experience, revolted against that. So the first imprints of a newly formed Henry Regnery Company went on two books by the humanitarian English publisher Victor Gollancz, *In Darkest Germany* and *Our Threatened Values,* and one by the philosopher Max Picard, *Hitler in Our Selves.* A first Regnery catalogue included Hans Rothfel's *The German Opposition to Hitler* and Ernst Juenger's *The Peace.*

The Flag of Unorthodoxy

Having raised the flag of unorthodoxy, Henry Regnery began to discover that Gollancz's phrase, "our threatened values," applied all over the lot. Pursuing this anti-Morgenthau interests, Regnery published Montgomery Belgion's *Victor's Justice* and Freda Utley's *The High Cost of Vengeance.* Later he issued Utley's *The China Story,* but not in time to save mainland China from the Communists. Mortimer Smith's *And Madly Teach,* a book on the dominant educational theories that had inflicted the faulty "look-say" reading methods on a generation of unsuspecting children, became a Regnery best-seller after *Time* magazine had devoted a three-column article to it.

It was only natural that Regnery should take the lead in publishing early World War II "revisionist

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books." There was William Henry Chamberlin's *America's Second Crusade,* Charles Tansill's *Back Door to War,* Husband Kimmel's *Admiral Kimmel's Story* and George Crocker's *Roosevelt's Road to Russia.* Regnery says he doubts that publishing the true story of Pearl Harbor or Yalta "will prevent such occurrences in the future." But the truth, he says, "is worthwhile for its own sake." If we can't know what our leaders have done and agreed to in our name, the alternative is "the society described in George Orwell's *1984.*"

Regnery anticipated Solzshenitsyn by many years with his publication of Elinor Lipper's *Eleven Years in Soviet Prison Camps.* He outraged the Zionists by publishing Alfred M. Lilienthal's *What Price Israel,* even though Lilienthal made plain his "obvious devotion to his Jewish faith."

It was not with a movement in mind that Regnery accepted Russell Kirk's *The Conservative Mind* and Bill Buckley's *God and Man at Yale,* but a movement it became, as the many Regnery titles mentioned in George Nash's *The Conservative Intellectual Movement in America Since 1945* attest. In a period of less than two years Regnery issued James J. Kilpatrick's *The Sovereign States,* Felix Morley's *Freedom and Federalism* and James Burnham's *Congress and the American Tradition,* all of which complemented each other.

Regnery has a gift for characterization, and his descriptions and analysis of some of his authors—Konrad Adenauer of West Germany and Roy Campbell, the South African poet, are examples—prove that he could have been a huge success as a critic or journalist if he had not chosen publishing as a career. But publishing was just exactly right for him. It allowed him to indulge his master passion, which was to let honest dissidents have their say. ⊕

ECONOMICS OF PUBLIC POLICY: THE MICRO VIEW
by John C. Goodman and Edwin G. Dolan
(West Publishing Company, 50 W. Kellogg Blvd., P.O. Box 3526, St. Paul, Minnesota 55165) 1979
211 pages ■ $6.95 paperback

Reviewed by Lawrence W. Reed, Assistant Professor of Economics, Northwood Institute, Midland, Michigan

How refreshing it is to come upon a textbook on public policies which holds those policies up to the light of liberty as a standard for judging their desirability. At a time when many economists cast this yardstick aside with a "Mussolini at least kept the trains running" attitude, two

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authors have produced a magnificent volume which is at once sound economics and a defense of liberty.

The primary purpose of John C. Goodman's and Edwin G. Dolan's *Economics of Public Policy: The Micro View* is "to help students understand how economic theory applies to the real world . . . by showing how some of our most important (and often controversial) public policies reflect economic principles in action." If the response of students at my college, Northwood Institute, is any indication, Goodman and Dolan deserve an "A+" for success in this endeavor.

In Chapter 1, "Thinking About Public Issues and Policies," Goodman and Dolan map out for the reader the course they will take in the succeeding fifteen chapters. They explain that *positive economics*—the scientific study of economic institutions, policies, and actions—will be utilized through examination and application of such concepts as scarcity, opportunity cost, the production-possibility frontier, supply and demand analysis, and consumer choice. From there, the authors propose to enter the risky field of *normative economics*—"the application of ethics or philosophy to economic issues."

It is this latter emphasis that makes Goodman's and Dolan's book so intriguing to the freedom believer. The authors readily acknowledge that "not everyone agrees on which normative standards are valid or on which ethical principles are more important than others" but they are quick to proclaim that "such disagreements are no excuse for the failure to think and express ourselves clearly" in this realm.

The first standard which they use in evaluating public policies is that of *efficiency,* defined by the authors as "the property of producing or acting with a minimum of expense, waste, and effort." A policy or a change in policy is judged "efficient" by this standard if its benefits exceed its costs.

A second standard, *equality,* focuses on the distribution of income and wealth. If there is anything in the book which might touch off a libertarian's warning siren, it would be this point. Goodman and Dolan state that "By this standard, a policy that causes income and wealth to be more equally divided would be judged to be a good policy . . ."

Inclusion of this standard, however, does not lead the authors to endorse coercive, egalitarian measures. They consistently favor the unfettered price system for rationing economic goods and oppose nonmarket forms of rationing put forth as programs to "help the poor." They champion the sanctity of contract and rebuff schemes for the forcible redistribution of wealth. They

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clearly show that recognition of "value trade-offs" is important—that complete equality of income, for instance, could only be achieved with disastrous effects on both efficiency and their third criterion, *liberty*.

As applied to the evaluation of public policy, Goodman's and Dolan's standard of liberty holds that "any policy is bad if it violates the individual's civil and economic liberties." Such liberties include freedom of speech, freedom of the press, freedom of religion, the right to own property, the right to produce goods and services, and the right to engage in voluntary exchange with others. As a professor of economics, I am at a loss to name another textbook which rigorously evaluates the public policies of today against such noble principles.

Look to the Individual

Another great strength of this book is the policy-by-policy scrutiny of the "politics" of the issues. Here, the authors tackle the job of "trying to explain why we have the particular policies we do have." As Ludwig von Mises and the praxeological economists have stressed repeatedly, the basic economic unit of society is *the individual*. All actions and their consequences must be traced back to their point of origin—*particular* individuals with *particular* interests and ideas. Only in this manner can we see why an act or policy has come about, and then assign responsibility.

Once their methods of analysis are unfolded, the authors take on such varied topics as the military draft, gasoline rationing, product safety, farm policy, the postal service, illegal aliens, the minimum wage, the environment, and social security.

Chapter 10, "Competition and Monopoly in the Market for Oil," is one of the best. It covers a brief history of government and the oil business, a look at the OPEC cartel, the politics of oil, and a summary of several alternative energy policies. These range from adopting a free market to breaking up oil companies to nationalizing the oil industry. In their evaluation, Goodman and Dolan endorse the free market as the only alternative consistent with the standards of efficiency and liberty, even though it does not promise greater equality of income:

> By this standard [liberty] there should be no restrictions on the buying and selling of oil and no restrictions on the production of oil and oil products. Nor should government be able to tax "windfall" profits or subsidize "windfall" losses. Nor should government impose arbitrary restrictions on our behavior or use the tax system to reduce our consumption of oil. The production, distribution, and use of oil should be left totally to the free choices of individuals who are participating in the free market.

In other chapters, the reader will

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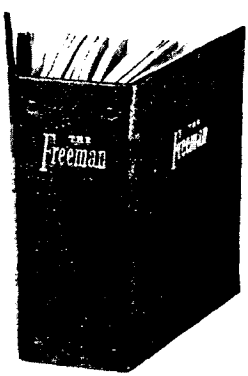
find such interesting tidbits as a contrast between private and government mail delivery in American history, a defense of free immigration, a suggestion of applying the property rights concept to eliminate pollution, and an endorsement of innovative, free market pricing in the distribution of electric power. In every chapter, the authors write in a lively and lucid style that makes this study of public policy an absolute delight.

Economics of Public Policy: The Micro View is exciting and exceedingly useful in the classroom. And, in this reviewer's opinion, it's just great reading for anybody.



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